Appendix

Some Relevant Academic Research on Multilateral Trade Cooperation

Most academic work on trade policy over the decades has addressed itself to the decisions taken by individual, national governments. The unit of analysis has been the nation as an independent entity. One extensive branch of the literature consists of historical accounts of the twists and turns that national trade policies have taken in individual countries; these accounts have been much drawn on in this book, and references to them are scattered throughout. Besides these many narratives, economists and political scientists have built up a substantial body of empirical research on various aspects of national policies. Starting with different simplifying assumptions about the behavior of states and individuals, the perspectives of the economists and political scientists have, of course, not been the same. Though the lines of division in their studies are happily blurred in some places, there remains much room for closer integration. (Robert Baldwin has offered a succinct comparative analysis of the two approaches and has added some thoughts on future common work. See Baldwin 1996.)

Most of the work of economists over the years has focused on the explanation of protection in individual countries. One major line of inquiry has been undertaken at the microeconomic level and has attempted to explain differences among individual industries in their levels of protection or in the changes in these levels over a (usually fairly short) period of years; a common thread has been the attempt to determine how far protection can simply be explained by the manipulation of political power. (For a review of the literature, see Marks and McArthur 1993.) Some research has also addressed changes in aggregate levels of protection over longer periods, to assess the effects of macroeconomic factors, such as recessions, on these changes (see, e.g., Grilli 1988) Taking a more encompassing view, some political scientists have also explored long historical changes in national trade policies. Judith Goldstein, for instance, gave emphasis to the influence of ideas and institutions in altering the timing and content of long-term changes in American trade policy (Goldstein 1993). Peter Gourevitch compared the responses of five industrial countries to three crises in the international economy and was struck by the similarity in responses despite differences in ideology and institutions (Gourevitch, 1986).

None of the research so far mentioned has directly addressed the issue of cooperation in trade policy among nations. The first major attempt to analyze cooperation made after the Second World War was the theory of hegemonic stability put forward by several economists and political scientists (see Kindleberger 1981, 1983; Gilpin 1981). Drawing primarily on the historical experience of the United States in the first quarter century after the Second World War, as well as on that of Britain in the nineteenth century, the theory argued that trade cooperation depended on the existence of a hegemon able to enforce compliance with multilateral norms and rules. Mancur Olson's famous study *The Logic of Collective Action,* published in 1965, drew conclusions that appeared to support this view. He argued that in the absence of a central authority to enforce compliance, the rational pursuit of self-interest would dictate against participation in collective action; the individual would pursue his own interest, hoping to gain (at no cost) from the compliance of others. This argument attacked the conventional wisdom that if a group of individuals would all benefit from some form of collective action, it should be possible for them to arrange that such action be taken. (Olson also argued, however, that if the group of individuals were small enough, voluntary compliance could be feasible.)

The hegemonic theory was later subject to extensive criticism, both on historical and on theoretical grounds. Despite the decline of American hegemony in the 1970s, multilateral cooperation persisted, and that fact called for explanation. In his major study *After Hegemony: Cooperation and Discord in the World Political Economy* (1984), Robert Keohane expounded the answer of a group of political scientists known as the liberal institutionalists. While acknowledging the realism of the view that power and interest profoundly influenced international economic relations, these scholars contended that multilateral rules and institutions could successfully resolve the problem of compliance and allow nations to engage in mutually advantageous collective action. They were considerably assisted in their argument by the postwar development of game theory. Robert Axelrod, for instance, explored how cooperation could arise among rational egoists in the absence of a strong central authority that was imposing its will on them; he concluded (on the basis of a large number of computer-generated trials of the tit-for-tat game) that under certain conditions, cooperation could take place even without prior negotiation among the parties (Axelrod 1984). One key condition was that the participants had to interact repeatedly and had to expect to continue to do so. This condition is well exemplified in multilateral trade cooperation. The behavior of trading partners toward each other has been increasingly influenced by—to use Axelrod's phrase—"the shadow of the future"; partners have refrained from egoistical acts today because of their awareness that these might jeopardize future trade relations.[1]

A number of economists have also recently set out to study directly the rules and institutions of multilateral trade cooperation. Accepting these rules and institutions as an integral part of national trade policies, they have explored their economic rationale. (For a review of this literature, see Staiger 1995.) Kyle Bagwell and Robert Staiger, for instance, have analyzed the principles of reciprocity and nondiscrimination embodied in GATT/WTO, concluding that the framework of rules resulted in a more efficient trade policy for participating countries than would be the case if they pursued a unilateral policy; this conclusion was based on the premise that large countries were tempted to pursue the latter to reap gains from the terms-of-trade effect (Bagwell and Staiger 1997). Alan Deardorff has likewise analyzed several aspects of the WTO, to demonstrate how its rules and procedures encourage countries to pursue trade policies that are mutually advantageous but that they might otherwise be tempted to employ in ways harmful to each other (Deardorff 1996). His approach has drawn on game theory–in particular, the prisoner's dilemma.