



## Introduction

In a world where globalization is drawing nations ever closer together, most of us believe that international relations have to become more orderly and less anarchical. But attainment of this end is elusive. For those who see themselves as realists, it depends largely on the responsible exercise by the United States of its undisputed hegemonic power. For others, it rests with the development of more cooperative arrangements among states to manage world affairs in the common interest.

Experience with the formation of lasting global arrangements has been decidedly mixed. The system of multilateral trade relations stands out as one of the few instances on the positive side of the balance sheet. So, it is well worth exploring how and why nations have succeeded in assembling a body of multilateral rules and procedures to guide them in their trade relations. The primary interest of this study is thus in the conditions that have persuaded nations to overcome their mutual suspicions and to engage in trade cooperation.

The progression to the present-day order in trade relations stretches over many decades, even centuries. Its advance has been irregular and uncertain. Indeed, there have been periods in the history of trade cooperation when respect for the agreed disciplines has come close to disappearing entirely. This was true of the harsh world of the 1930s. Many people became concerned that the same was happening, though less dramatically and more insidiously, in the more recent decade of the 1980s. But since then, the multilateral trade regime has more than just survived. With the completion of the Uruguay Round of trade negotiations and the consequent establishment of the World Trade Organization in 1995, it has risen to a new level of cooperation.

It is striking that the advances in multilateral trade cooperation

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over the last 150 years or so have occurred in an era of vigorous and often virulent nationalism. Attempts to enlarge cooperation have had to contend with an almost absolute belief in the nation-state as an independent and sovereign entity, a belief that has come to be cautiously and quietly questioned only very recently. In international politics, external relations are still largely seen to be conducted in a Hobbesian world of near anarchy. States are deeply suspicious of each other, being either fearful of domination or, if powerful, ready to exercise their strength in order to impose their will. In such a world, multilateral cooperation has few successes.

Where national security has not been at stake, however, and where commercial interest or the promotion of material well-being has been at the forefront of national policy, countries have been readier to recognize that their own interests can sometimes be better advanced through cooperation with others. They have learned from experience—both good and bad—that the material benefit from cooperation can make it worthwhile to rein in their Hobbesian mistrust of other countries. The key has been the recognition of their mutuality of interest. Of course, suspicions have persisted, and if the powerful have refrained from the use of coercive or near coercive measures, they have nonetheless often used their power to shift the balance of advantage in their favor. But where cooperation has flourished, it is because all participants, whether powerful or weak, have seen a net advantage in doing so. The winding path of multilateral trade cooperation has thus been a story of how countries have come to equate their national interest with cooperation. It has been a story of the shifting interpretation within nations of where their national interest lies and of the circumstances in which these perceived interests have permitted mutual accommodations among countries.

Cooperation means not the absence of conflict but the resolution of conflicting interests in a mutually advantageous way.<sup>1</sup> Trade negotiators deal with conflicting interests and strive to gain as much advantage for their own side as they can, but they do so within an important constraint: the outcome of the negotiations must be seen by all parties to be reasonably fair. Over the centuries, trade negotiators have found certain operating principles—

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for example, reciprocity, nondiscrimination, and national treatment—to be of immense value in meeting the requirement of fairness. Their work has led to the gradual emergence of abiding rules and conditions within which international business can be conducted. For those engaged in foreign trade and investment, the benefit has been immeasurable. To them, it is not only the level of trade barriers or the stringency of domestic regulations that matters; it is also the knowledge that the other nations with whom they deal will not apply their trade or investment regulations in ways that appear arbitrary and unpredictable.

The new trading environment emerging from the Uruguay Round has been greeted with acclaim by many economists, journalists, and corporate leaders, particularly in the United States. They have seen it, together with the remarkable developments now occurring in information and communications technology, as powering the globalization that they hail as the dawn of a new era in international economic relations. Others—mostly in industrially more established countries<sup>2</sup>—have reacted quite differently. They have found globalization to have many harmful consequences, both socially and environmentally, and they hold that the market-oriented rules of the World Trade Organization are at least partly to blame.

There is presently a large, fast-growing literature on the subject of globalization, and this book does not directly evaluate the many arguments for or against the expansion of world trade and investment (though these arguments are necessarily discussed as elements shaping present-day trade policies). But it may be helpful to the reader to know at the outset roughly where the author stands. As an economist believing in the efficiency of market capitalism in raising living standards, I see benefit in the expansion of international trade and investment and recognize the emergence and enlargement of a set of multilateral rules of conduct as a major achievement. But this is not a doctrinal position—there is no doubt that conflicts between the aim of economic efficiency and other social aims have to be addressed. Nor should my views be taken to imply a belief that the multilateral trade regime is or should be progressing inevitably toward universal free trade. A review of the history of trade relations reveals that pragmatism in

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reconciling conflicting interests and in searching for mutual advantage has been the outstanding characteristic of success in multilateral trade cooperation. The strength of national sensitivities everywhere and the great diversity that exists among nations—in their laws, their social institutions, and, even more important, their levels of development—ensure that this will remain true in the future.

Following current conventional usage, this book treats *trade policy* and *commercial policy* as interchangeable terms, though on a strict reading, *commercial policy* has a much broader meaning. Traditionally, in the days of largely bilateral trade relations, countries were wont to sign treaties of commerce with each other. These treaties usually dealt not only with measures affecting merchandise trade but also with many other matters affecting commercial relations in general, including, for example, foreign property rights or the recognition of patents. Today, however, most commercial issues arising between countries are lumped together under the heading of trade. Thus, we now have a World Trade Organization, which—though it may not trip off the tongue quite so lightly—should really be called the World Commerce Organization.

This book opens with a discussion of national trade policies. Chapter 1 takes countries' institutional settings into consideration as it explores the flux of interests and ideas that formed these policies. Chapter 2 moves on to the international plane; it analyzes how the international monetary system prevailing at different times has affected national trade policies, and it sets out, in general terms, the principles and practices that nations have collectively worked out, over time, to facilitate cooperation.

Chapter 3 begins the historical account in this book, with an exploration of trade cooperation before 1914; it discusses the British adoption of free trade and its limited effect on trade cooperation, and it traces the emergence of a continental European network of trade agreements linked together by the most-favored-nation clause. Chapter 4 describes the political and economic circumstances that accounted for the failure of attempts in the 1920s to restore the prewar pattern of trade relationships and to move toward multilateral trade cooperation; it also traces how the Great Depression brought about the near demise of any orderly trade

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regime in the 1930s. Chapter 5 explores why the trade regime established soon after the Second World War was, despite a false start with the Havana Charter, so successfully rooted in multilateral cooperation. Chapter 6 describes the first twenty-five years of the new multilateral trade regime, analyzing how national responses to changing economic circumstances led, in the Kennedy Round, both to a broadening interpretation of reciprocity and to the compromising of nondiscrimination. Chapter 7 seeks to identify the reasons for the international erosion of confidence in multilateral trade cooperation that took place in the 1970s and 1980s, and it traces the effect that the withdrawal into more nationalist policies had on cooperation.

Chapter 8 turns to the developing countries, exploring why their participation in multilateral trade cooperation, peripheral prior to the 1980s, changed markedly in the 1980s and 1990s. Chapter 9 takes up the Uruguay Round of trade negotiations initiated in the 1980s, examining how far its outcome can be deemed to mark a new era in multilateral trade cooperation. The 1980s and 1990s also saw a rising interest among many countries in regional trade arrangements, and chapter 10 discusses the nature of this development in relation to multilateral trade cooperation.

Chapter 11 outlines the progress of trade cooperation from the signing of the Uruguay Round agreement in Marrakech in 1994 to the aborted meeting of the World Trade Organization in Seattle in 1999, which was intended to launch a new round of negotiations; it thus identifies the main trade issues of concern to governments and discusses the chief criticisms and fears about the multilateral trade regime that are widely raised today against the background of globalization. Chapter 12 offers a brief assessment of the past and present evolution of multilateral trade cooperation.