Notes

Introduction

1. Robert O. Keohane has a valuable discussion of cooperation in his book *After Hegemony*. He contrasts it with harmony and discord. In the former, no mutual adjustment of policies to achieve common goals is necessary. In the latter, no adjustment is acceptable, and common goals are not realized. See Keohane 1984, 51–55.

2. The phrase "industrially more established countries" is used throughout the book to refer to those countries whose industrialization had already advanced substantially before the outbreak of the First World War. These were principally a handful of countries in Western Europe and North America.

Chapter 1

1. Global data on intrafirm exports between multinationals and their foreign affiliates are far from complete. The estimate extrapolates from data for France, Japan, Sweden, and the United States. See United Nations Conference on Trade and Development 1995, table 9; 1996, 121.

2. In a recent paper on foreign direct investment, Robert E. Lipsey makes the point (among others) that not only has the bulk of such investment been in the industrially more established countries of Western Europe and North America, but their inflows and outflows of direct investment have, for the most part, roughly balanced (Lipsey 2000).

3. Even in seventeenth-century England, such conflict was in full flood, as Thomas Macaulay observed in his great political history of the period: "the manufacturers of Spitalfields, of Norwich, of Yorkshire, and of the western counties, considered trade with the eastern seas as rather injurious than beneficial to the kingdom. The importation of Indian spices, indeed, was admitted to be harmless, and the importation of Indian saltpeter to be necessary. But the importation of silks and Bengals, as shawls were then called, was pronounced to be a curse to the country. The effect of the growing taste for such frippery was that our gold and silver went abroad, and that much excellent English drapery lay in our warehouses till it was devoured by the moths. Those, it was said, were happy days for the inhabitants both of our pasture lands and of our manufacturing towns, when every gown, every hanging, every bed, was made of materials which our own flocks had furnished to our looms. Where were now the brave old hangings of arras which had adorned the walls of lordly mansions in the

days of Elizabeth? And was it not a shame to see a gentleman, whose ancestors had worn nothing but stuffs made by English workmen out of English fleeces, flaunting in a calico shirt and pair of silk stockings? Clamors such as these had, a few years earlier, extorted from Parliament the Act which required that the dead should be wrapped in woollen" (Macaulay 1936, 3:25–26).

4. Sectional interests seeking to protect their domestic production from import competition may well display a power to influence trade policy that appears to far outweigh their economic importance in the national economy. While exporting interests may be vigorous in lobbying for reductions in foreign trade barriers, they are hoping for gains in sales and profits that they can not yet count on. By contrast, when faced with increasing import competition, domestic industries fear losses in profits and jobs that they already enjoy, which lends a vehemence and concreteness to their representations. We should not suppose, however, that domestic industry seeks protection only when losses in sales and profits are already threatening. Since the aim of private enterprises is profit maximization, it is logical that they should seek to gain protection for their domestic markets so far as they legally can. If they succeed, their profits are likely to be higher than they otherwise would be; they are, in effect, enjoying a rent. The manipulation of national legislation to commercial advantage ranks alongside efforts to improve the efficiency of the firm as a way of enhancing profits. (This is what Jagdish Bhagwati dubbed Directly Unproductive Profit-Seeking, or DUP. See Bhagwati 1982.) Political circumstances that make such rent seeking possible—whether it is as transparent as the lobbying industry in Washington, D.C., or takes place through more hidden channels, as in many other countries—present an obstacle to trade liberalization and cooperation.

5. Among political scientists concerned with international relations, those who advance cognitive theories place ideas and beliefs at the center of their explanations of cooperation among nations. See Hasenclever, Mayer, and Rittberger 2000.

6. The historical material in this section draws on later chapters, where it is more fully annotated.

7. Partly for this reason, the United States did not oppose the exemption of developing countries from making reciprocal trade concessions in most of the earlier negotiating rounds held under the auspices of GATT. As the Cold War receded, however, the reluctance to accord such a preferred status to developing countries generally intensified.

8. Among principal exponents of the theory of hegemonic stability were Robert Gilpin (see Gilpin 1981) and Charles P. Kindleberger (see Kindleberger 1981, 1983). Robert O. Keohane provides both an exposition and a critique of the theory in Keohane 1984 (32–39).

9. Peter Katzenstein makes this point in his study of industrial polices in smaller European states (Katzenstein 1985).

10. For a lucid, very readable, and thoroughly researched account of the

arguments of economists for and against free trade over the centuries, see Irwin 1996.

11. Strategic trade theory begins from a recognition, first, that much contemporary trade consists of an exchange among countries of similar kinds of manufactures (it is intra-industry trade, not interindustry trade) and, second, that the competing firms are often very few and certainly not the large number assumed in traditional free trade theory. The explanation as to why a country has a comparative advantage in a specific product is seen to lie not in its natural or factor endowment but in the fact that the firm or firms producing the product have been able, virtually through the accident of history, to gain the advantage of economies of scale, have acquired a special fund of experience, or have made a technological innovation ahead of others. This line of thought has opened up the possibility that, even for neoclassical economists, an activist trade policy might be justified on the grounds that it would yield greater benefit to the country than would strict adherence to free trade principles. The practical difficulty with such an activist policy, which amounts to an industrial development policy, is that it turns out to be very hard to identify the industries that would merit special attention. The national benefit accruing from such a policy, moreover, might be quite modest, and it would carry the risk that it might jeopardize the existing international trade regime because other countries would follow suit. For a range of views on different aspects of strategic trade policy, see Krugman and Elhanen 1985.

12. For a tour of these popular views and for a penetrating but good-humored analysis of why they are misguided, there is no better guide than Paul Krugman in his *Pop Internationalism* (Krugman 1997).

13. Only economists, whose thinking is imbued with hard-won theoretical constructs of how economies function, find the logic of free trade compelling or at least demanding of an equally cogent answer. In his book written with Kenneth Dam, George Schultz, who, as a former U.S. secretary of state and secretary of the treasury, should know something about the minds of those concerned with policy-making, observed, "The gains from free trade strike many well informed people, including members of Congress, as highly abstract if not illusory" (Schultz and Dam 1978, 35).

14. These conditions and responses are described more extensively in chapter 4.

15. What adds to the argument is that the future long-term benefit from an open trade policy tends to get more heavily discounted in a severe recession, when the political need is to do something to alleviate current unemployment.

16. Hamilton also saw the potential exchange of Northern manufactures for Southern agricultural produce as a force for political integration of the country. For a more detailed account of his views and actions, see Miller 1959.

17. The enterprise failed because the workforce was too inexperienced; it lacked an accumulation of managerial and technical skills to draw on.

18. Jagdish Bhagwati and Anne Krueger were principal academic exponents of an outward-looking trade strategy. An informative and balanced account of the contrasts between outward-looking and inward-looking trade strategies is given in World Bank 1987 (chap. 5).

19. Chapter 8 includes a fuller discussion of the policies of these countries.

20. The free trade movement and the movement for parliamentary reform were closely interrelated, drawing their support from the same segments of society and sharing some of the same leaders. See Hinde 1987; McCord 1958.

21. The role of Congress in trade policy from the 1920s on is the subject of comment in several later chapters in this book. On its role in the decades before the First World War, Judith Goldstein provides a directly relevant and insightful analysis (Goldstein 1993). For other, more general commentaries on earlier U.S. trade policy, see Ashley 1904; Eckes 1995.

Chapter 2

1. This characterization of the world economy derives from Immanuel Wallerstein. In his view, the economic power of states has formed a hierarchical structure that has remained relatively unchanged over the last four hundred years. At the center, there has always been one strong and dynamic state: in the fifteenth century, it was Venice; in the seventeenth century, Holland; in the eighteenth and nineteenth centuries, Britain; and today, the United States. But he notes that at no moment has there been a hegemon whose power has gone totally unchallenged. See Wallerstein 1984, 30.

2. For a splendid analytical history of the exchange rate regime from the gold standard era to the present, see Eichengreen 1996.

3. A particularly helpful study of the use of trade measures as an instrument of macroeconomic policy under a flexible exchange rate regime is an empirically based simulation of their effects in solving the major imbalances of five large industrial countries in 1986–92: see Helkie et al. 1989.

4. George Kennan has described nationalism as "the greatest emotional-political force of the age" (Kennan 1993, 76–77). Isaiah Berlin characterized nationalism as an expression of outraged human dignity, a reaction to the past treatment of individuals or communities as inferior. He stated, "To be the object of contempt or patronizing tolerance on the part of proud neighbors is one of the most traumatic experiences that individuals or societies can suffer" (Berlin 1972, 17).

5. Both this introductory section and the following section owe much to the writings of political scientists concerned with international relations, "realists" as well as "institutionalists"–in particular, the writings of Robert Axelrod, Kenneth Gilpin, Robert Keohane, Hans Morgenthau, and John Ruggie. A valuable study of these two different schools of thought, as well as of the more recent cognitivist school, is contained in Hasenclever, Mayer, and Rittberger 2000.

6. For an exploration of the meanings of *reciprocity* in international relations, see Keohane 1986, 1–27. Bernard Hoekman and Michel Kostecki describe

and discuss the technical meanings assigned to *reciprocity* in the context of GATT negotiations (Hoekman and Kostecki 1997, 68–77). Carolyn Rhodes discusses reciprocity mainly in the context of retaliation–negative reciprocity to enforce compliance with trade agreements (Rhodes 1993).

7. Also, for the trade negotiators, the measures have the added advantage of setting quantitative and seemingly objective limits to the extent of the concessions that they can expect both to demand and to grant.

8. For a description of a computable general equilibrium (CGE) model that simulates the effects of tariff reductions on microeconomic variables, see Deardorff and Stern 1986. The limitation of these assessments is that they are largely confined to quantifying the short-term effects of changes in relative prices and are less able to capture the long-term dynamic effects on investment and innovation.

9. The findings of a recent empirical study largely correspond to this interpretation. Michael Finger, Ulrich Reincke, and Adriana Castro recently undertook an analysis of the trade effects of the tariff concessions granted and received by a number of countries during the Uruguay Round; they also interviewed several delegations to ascertain whether they sought equivalence in their negotiations. They found scant evidence, on both counts, that negotiators had been guided by any quantitative evaluation of equivalence. See Finger, Reincke, and Castro 2002.

10. Among political scientists concerned with international relations, the importance of such relative status for the conduct of nations is a firmly held tenet of the realist school. For a discussion of how this affects theories of international cooperation, see Grieco 1990, 36–49.

11. The new interest in rules was first evident in the Kennedy Round, when the antidumping rule was taken up. Not until the Tokyo Round, however, did the strengthening of the regime of principles and rules acquire forward impetus.

12. This is–appropriately enough–a collective definition agreed at a conference. For the full definition, see Krasner 1983, 2. The idea was first introduced into the literature by John Ruggie.

13. Jacob Viner wrote two outstanding articles, one in 1924 and the other in 1931, on the most-favored-nation clause, both a mix of historical and economic analysis. Both are reprinted in his collection of studies (Viner 1951). Sir Arthur Salter likewise had some insightful things to say on the clause in the context of trade relations in the 1920s and early 1930s (Salter 1936). John Jackson, a distinguished scholar in international trade law, has also devoted a chapter to the subject (Jackson 1999, 157–74).

14. For this reason, as I shall discuss in chapter 10, the recent tendency for the industrially more established countries to conclude free trade agreements with individual developing countries is cause for some concern, since these agreements may be misused as a means for the more powerful to gain preferential access in third markets.

15. John Jackson has devoted a chapter to the idea, history, and applications of national treatment obligations (Jackson 1999, 213–28).

16. That reliable data on costs and prices to substantiate allegations of dumping are hard to come by adds to the uncertainties surrounding the allegations.

17. For some political scientists, the issue of compliance has been at the crux of their theories of international cooperation. For them, the central problem in explaining cooperation is that if states act as rational egoists, they will be tempted to cheat to maximize their own benefit. As I indicate in the appendix, these political scientists have put forward answers that solve this puzzle.

18. Adam Smith took an eminently pragmatic attitude toward the use of retaliation. He wrote that retaliation might be a good policy "when there is a probability that [it] will procure the repeal of the high duties or prohibitions complained of." He added, however, "But when there is no probability that any such repeal can be procured, it seems a bad method of compensating the injury done to certain classes of our people to do another injury ourselves, not only to those classes but to almost all the other classes of them" (Smith 1937, 435).

Chapter 3

1. For a succinct and illuminating account of the transition in British trade policy, see Brown 1958.

2. There are several biographies of Richard Cobden. A recent, well-balanced study that has been drawn on here is Hinde 1987.

3. Norman McCord provides a detailed historical account of events leading up to abolition of the Corn Law (McCord 1958). Another, much briefer, but interesting, interpretation of the events can be found in Condliffe 1950 (209–16).

4. This view did not, however, go entirely unchallenged. Torrens, who first set out the argument that a country could benefit from tariffs through their effect in shifting the terms of trade in its favor, maintained that tariffs should only be reduced on the basis of reciprocity. Most economists at the time rejected his view outright. See Irwin 1996, chap. 7.

5. A much more comprehensive account (though similar in interpretation) of the events flowing from the signing of the Cobden-Chevalier Treaty is provided in Marsh 1999. J. B. Condliffe saw the significance of the treaty in the fact that other countries copied the most-favored-nation clause (Condliffe 1950, 220–24).

6. For Europe's export performance throughout the nineteenth century, see Bairoch 1993, table 4.1.

7. On the political and economic policies of Louis-Napoléon, see Ashley 1904; Clapham 1955; Haight 1941.

8. On the period from the signing of the Cobden-Chevalier Treaty to the outbreak of the First World War, three general studies are particularly useful: Bairoch 1993; Foreman-Peck 1995; Kenwood and Lougheed 1983. On individual countries, the studies mentioned in the preceding note are also valuable.

9. While warning against assigning the same meaning to similar statistical data in different historical periods, Joseph Schumpeter observed that, so far as

the figures went, the depression of 1874–77 appeared quite as dark as that of 1929–33 (Schumpeter 1939, 337).

10. J. H. Clapham quotes Bismarck as rejecting the "dream" of free trade (Clapham 1955, 316–17). For a biography of Bismarck that touches on his views of trade policy, see Crankshaw 1981.

11. French trade policy in the latter decades of the nineteenth century and in the early twentieth century has often been characterized as highly protectionist. Joseph S. Nye has challenged this view (Nye 1991).

12. Still, even in the absence of a treaty, France formally accorded Britain most-favored-nation treatment in 1882; thus, a key element of trade cooperation remained in place.

13. There were, however, also some positive developments. Britain and France signed a Treaty of Arbitration that provided, inter alia, for the referral of commercial disputes, if both sides agreed, to the Permanent Court of Arbitration in the Hague. This court had been established very recently, in 1899, to arbitrate in any disputes that countries might choose to present to it. See Barclay 1914, 354; Levi 1976, 68.

14. For an extensive account of these wars, see Conybeare 1987. Conybeare uses a game-theoretic approach to analyze the interactions among the warring countries. The discussion of the Franco-Italian trade war in the present text draws heavily on Conybeare's work. Other accounts of that war can be found in Ashley 1904 and Marsh 1999.

15. It remained the intellectual conviction that this was the right thing to do. W. W. Rostow quotes *The Economist* as saying, in its review of 1879, that the "obscure and contemptible movement (so to call it) in this country in favor of revived Protection in the form of Reciprocity has died out" (Rostow 1949, 213n).

Chapter 4

1. There are a great many accounts of both international economic conditions and international payments problems in the 1920s. For three, see Condliffe 1950, 440–57; Foreman-Peck 1995, chaps. 3–4; Schumpeter 1939, chap. 14.

2. Keynes publicized his views in *The Economic Consequences of the Peace* (1919).

3. For a discussion of the different interpretations of the causes of exchange rate instability, see Eichengreen 1996, chap. 3.

4. In 1918, the French minister of commerce, M. Clemental, declared: "the Government has denounced all commercial conventions which embody the most-favored-nation clause. That clause will not reappear. It will never again come back to place itself at cross purposes with our efforts. It will never again poison our tariff policy." However, France, which insisted on such a pledge from others, found other countries unwilling to negotiate agreements without the clause. Only very small and dependent countries were willing to negotiate on such unequal terms. See Viner 1951, 95.

5. Some experts were forthright in their condemnation of conditional most-favored-nation treatment as grossly inefficient. Jacob Viner, a much respected economist who argued for reform, wrote that "the most-favored-nation clause in American commercial treaties, as conditionally interpreted and applied by the United States, has probably been the cause of more diplomatic controversy, more variations in construction, more international ill-feeling, more conflicts between international obligations and municipal law and between judicial interpretation and executive practice, more confusion and uncertainty of operations than have developed under all the unconditional most-favored-nation pledges of all the other nations combined" (Viner 1951, 25).

6. In commenting on the dismal outcome of the tariff negotiations held at the Genoa conference of 1922, Sir Arthur Salter wrote: "each official was the prisoner of his own national system, each item of which represented a protection to some home industry which was supported by those who had secured its adoption. He was responsible to ministers who were the prisoners of the groups of organized interests in their respective parliaments. Each national representative, therefore, while urging that others should change their policies, felt bound to defend his own and had no authority to agree to change it." What guided each national representative was not "a conception of his nation's interests as a whole, mistaken or not, but a calculation of pressures to which the national government would be subjected by organized interests in the respective parliaments. Consequently, the net result of the Genoa resolutions was rather to endorse and consolidate a system of trade barriers which everyone, looking at it as a whole, recognized to be injurious to world recovery" (Salter 1936, 39–40).

7. In fact, the British and Dutch governments later made use of this tactic. In November 1930, at the Second International Conference with a View to Concerted Economic Action, they together proposed that if other countries reduced their tariffs by 25 percent, they would remain committed to free trade. The proposal fell flat. See Kindleberger 1973, 35.

8. For students of international economic relations, Kindleberger 1973 provides a fascinating record and economic analysis of the depression years. For a briefer general account, see Condliffe 1950. For an analysis that was written at the time and that contains views on commercial policy, see Salter 1932. For a more recent historical analysis that also discusses commercial policy, see Foreman-Peck 1995, chaps. 10–11. On exchange rates, see Eichengreen 1996.

9. For an account of Keynes's thinking about free trade and protection during the 1920s and 1930s and of subsequent critiques of his views, see Irwin 1996, chap. 13.

In 1930, Prime Minister Ramsay McDonald formed a committee of economists to advise on policies to restore the level of economic activity. Keynes served as chairman, and the other members were Sir Joshua Stamp, Arthur Pigou, Hubert Henderson, and Lionel Robbins. There were sharp differences of opinion. Lionel Robbins, in particular, was fiercely opposed to the use of tariffs as a macroeconomic policy instrument. See Skidelsky 1994, 365–87.

10. This view was shared by Keynes, who was among the first to applaud President Roosevelt for his abandonment of a fixed exchange rate. We should not conclude, however, that Roosevelt was pursuing a "Keynesian" policy. Among the aims of his administration was the pursuit of a "fiscally responsible" balanced budget.

11. Many of the elements of a coherent, international recovery program were nonetheless being advanced. Prior to the 1933 conference, Britain and Belgium proposed the creation of an international fund that would provide short-term credits to countries in balance-of-payments difficulties. This was seen as a way toward currency stabilization and the reduction of trade barriers. But the U.S. administration saw no possibility of Congress providing funds for loans to foreign central banks. See Kindleberger 1973, chap. 9.

12. Alfred E. Eckes Jr. has noted that in the 1920s, a young State Department economist, Wallace McLure, proposed a program of reciprocal tariff reductions to be extended to third countries on the basis of the most-favored-nation clause. This was the essence of what was to become the Reciprocal Trade Agreements Act of 1934. According to Eckes's research, McLure and Hull had frequent discussions on the matter over the years. See Eckes 1995, 93–94.

13. In a speech to the House of Representatives in 1916, Hull suggested that after the war, there should be established a "permanent international trade congress" to eliminate trade practices causing international controversies and economic wars and to promote fair and friendly trade relations (Hull 1948, 81–82).

Chapter 5

1. For an engrossing and detailed account of discussions both within and between the United States and Britain on the formation of the international, monetary, financial, and trade institutions, see Gardner 1969. For other accounts, see Penrose 1953; Condliffe 1950. On GATT in its early years, see also Koch 1966.

2. General Agreement on Tariffs and Trade 1986, preamble.

3. For a brief history of these issues before and after the signing of GATT, see Jackson 1999, 150–53, 167, 221.

4. For a brief history of these issue, see Jackson 1999, chaps. 10–11.

5. Opinions have differed on how far it was the intent of the GATT negotiators to establish a quasi-judicial procedure for the settlement of disputes. John Jackson has pointed out that the draft of the Havana Charter called for a "rigorous" procedure, even with appeal to the World Court in some circumstances. For an interesting analysis of the roles of the competing ideas of diplomatic conciliation and of judicial interpretation of rules in the drafting of GATT, see Jackson 1999, 112–17.

6. The reciprocity was, however, less than it seemed. European and other countries were making extensive use of quantitative restrictions for balance-of-payments reasons. Thus, the United States was offering greater access to its markets than was immediately the case with the other parties in the negotiations.

7. According to Paul Bairoch, the average rate of import duty on manufactures in 1950 was 14 percent in the United States, 18 percent in France, 26 percent in Germany, 25 percent in Italy, and 23 percent in the United Kingdom. Rates were lower, however, in Belgium, Denmark, the Netherlands, and Sweden, where they ranged from 11 percent down to 3 percent. See Bairoch 1993, table 3.3.

8. By 1998, WTO members accounted for 90 percent of world merchandise exports (World Trade Organization 1999, table 11.2).

9. The developing countries that signed the original agreement were Brazil, Burma, Sri Lanka (then Ceylon), Chile, China, Cuba, India, Lebanon, Pakistan, Zimbabwe (then Southern Rhodesia), and South Africa. Australia, as a primary producing country industrializing behind high trade barriers, was often counted at the time as another member of this group.

Chapter 6

1. For a broad analysis of the politics of U.S. trade policy at the time, see Destler 1986, particularly chap. 2.

2. For a comprehensive, but succinct, statement of the political considerations leading up to the creation of the European Economic Community, see Roberts 1999, chap. 23.

3. However, neither the United States nor Britain were willing to grant the EEC a waiver to form a preferential trading area. To conform to GATT rules, the new trading area had to be either a customs union or a free trade area.

4. For a more detailed description of responses to the formation of the European Economic Community, see Foreman-Peck 1995, 268–69.

5. Further evidence of the boldness of the new administration is the fact that the new Trade Expansion Act even included a proposal to establish duty-free access for all those manufactures in which the United States and the European Economic Community together accounted for 80 percent of world imports. This proposal was predicated on British membership in the EEC. However, General de Gaulle vetoed the British application in 1963 because he feared the dilution of French leadership and the rise of American influence through Britain's "special relationship," so the proposal fell away.

6. In an earlier understanding reached between France and West Germany at the time of the formation of the EEC, West Germany accepted France's insistence on the Common Agricultural Policy as an essential ingredient of the new community; as a partial quid pro quo, France agreed to support participation in future multilateral trade negotiations.

7. The Europeans objected to the American practice of using the price on the American market as the basis for customs valuation of a limited range of goods. That was a way of setting tariffs that no gains in relative competitive efficiency could beat. See Destler 1986, 63.

8. To square the circle, the industrially more established countries sought a multilaterally negotiated derogation from GATT rules (see Hoekman and

Kostecki 1997, 207). For some further discussion of the relation between these restrictions and GATT rules, see Jackson 1999, 206–8.

9. For a description of the domestic political situation at the time by a key actor, see Ball 1982, 188–93.

10. The European countries had covered themselves legally on this point. In 1955, when they had reluctantly agreed, on the urging of the United States, to Japanese membership of GATT, they had retained the right, under GATT Article 35, not to apply the rules of this agreement.

11. As another component in its program to overcome protectionist sentiment in Congress, the Kennedy administration introduced legislation to provide adjustment assistance to workers displaced by import competition. At an earlier date, Britain had passed the Cotton Industry Act of 1959, which sought to assist businesses and workers in the industry to move into other lines of production or to acquire other skills.

12. David Yoffie argued that although barriers to trade in textiles and apparel grew increasingly restrictive in the 1970s and 1980s, the early East Asian "tigers"—Hong Kong, South Korea, and Taiwan—prospered. He ascribes their success in minimizing the adverse effects of foreign protection on their export growth not only to their flexibility in moving their production upmarket but also to their skill in negotiating relatively porous agreements on export restraints (Yoffie 1983, 159).

13. The desire to uphold the roles vied with the political need to break them, leading to the search for a means of circumvention.

> What thou wouldst highly,
> That wouldst thou holily; wouldst not play false
> And yet wouldst wrongly win.
> (Shakespeare, *Macbeth,* act 1, scene 5, lines 18–20)

14. Several commentators have characterized the conflicting attitudes of Congress and U.S. administrations in this way. See Destler 1986, 76.

15. For a summary of the views of Prebisch and others, see Meier 1970, chap. 8.

Chapter 7

1. For an appraisal of the ministerial meeting and its results, see Low 1993, 190–202.

2. For a discussion of U.S. political attitudes at the time, see Low 1993, 174–78. Low also offers a general analysis of the results of the Tokyo Round (chap. 8). See also Jackson's paper in Cline 1983 (159–87). Several other contributors to Cline's volume also comment on the results of the round.

3. This did not occur before President Nixon and Secretary of the Treasury John Connally had shaken international confidence in cooperation by peremptorily imposing a 10 percent surcharge on imports.

4. GATT had not been without rules that covered these matters. But, as I noted in chapter 5, the original rules had often been loosely drafted in order to accommodate differences of opinion and to gain common consent to the agree-

ment. That had left room for differences of interpretation that later became sources of conflict.

5. For fuller expositions of these codes, see Hoekman and Kostecki 1997; Jackson 1999.

6. There is a large literature on this period, covering both trade policies in general and policies in particular sectors. A very useful general analysis is contained in chapter 8 of World Bank 1987. A valuable collection of papers addressing all the main trade issues of the period appears in Cline 1983. Low 1993 presents a lively description and critique of U.S. trade policy at the time.

7. In Britain, for example, the poor performance of the manufacturing industry induced the Labor government in the 1970s to establish task forces composed of government, business, and labor at the level of individual industries, to work out programs, not excluding trade restrictions or subsidies, to reinvigorate the industries. For a discussion of the change in British official attitudes toward trade policy in the 1970s, see Cable 1983, 10–16.

8. For a regression analysis of the effects of cyclical factors and of changes in real exchange rates on changes in levels of protection, as well as for a review of possible reasons for the rise in protection, see Grilli 1988.

9. See Destler 1986, app. B, where cases submitted to the commission are listed.

10. The OECD's measure of official support to agriculture, its "producer subsidy equivalents," shows that between 1979–81 and 1986–87, support as a percentage of the value of agricultural production rose from 14 to 30 percent in the United States, from 20 to 40 percent in Canada, from 36 to 48 percent in the European Community, and from 60 to 73 percent in Japan.

11. For a fuller historical and economic analysis of the global steel industry, see Walter 1983. For a later analysis of the U.S. steel industry, see Crandall 1987.

12. For more extensive discussions of U.S. trade legislation introduced during this period, see Destler 1986; Low 1993.

13. Bayard and Elliott carried out an extensive study of seventy-two cases pursued under Section 301 of the U.S. trade law between 1975 and 1992. They found that the actions could be judged reasonably successful in about half of the cases. Their criterion of success was that the negotiating objectives of the United States had been achieved. While their study did not directly address itself to the trade effects of the actions, they estimated that in three of the cases–complaints against Japan on beef, tobacco, and semiconductors–the trade gains may have been about $3 billion. For all the other cases together, the gain was probably no more than a few hundred million dollars. See Bayard and Elliott 1994, 334.

14. U.S.-Japanese economic relations were the subject of commentary by a great many people. The views of a number of economists and politicians, both American and Japanese, can be found in Fried, Trezise, and Yoshida 1983. For a fairly representative view of American economists, see Krugman 1990, chap. 10. Several books on the subject, mostly by American journalists who had lived in Japan, also appeared; among the best known were those by Clyde Prestowitz

and James Fallows. These leaned toward a more sociological analysis of the problem, emphasizing not only the role of mercantilist policies in Japan but also the closed nature of its culture and society. Richard C. Longworth has published a more recent commentary in the same vein (Longworth 1998).

15. For a listing of formal and informal trade and investment barriers and an appraisal of the evidence regarding their presence in Canada, Japan, and the United States, see Saxonhouse and Stern 1989.

16. The annual economic reports of the U.S. president, put out together with the annual reports of the Council of Economic Advisors, are a good source of information on the successive agreements negotiated between Japan and the United States. See U.S. Presidents, 1985–95.

17. Greaney directly studied the effects of the bilateral trade agreements on actual trade flows (Greaney 2001).

18. For a detailed and revealing account of U.S. trade relations with Japan in the middle to late years of the 1990s, both multilaterally and bilaterally, see Stern 2002. Stern documents the impressive array of trade measures that the U.S. government has marshaled to exercise intervention in its trade with Japan.

19. The U.S. merchandise trade deficit with Japan was $56 billion in 1987 and approximately $67 billion in 1998 (in current prices).

Chapter 8

1. A substantial literature analyzes the political economy of these policy changes in individual developing countries. Among the books and papers that have proved most helpful in the preparation of this chapter are, on Latin American countries, Frieden 1991, Krugman 1999 (chap. 3), Thorpe and Whitehead 1987, and Williamson 1990; on Latin American and African countries, Nelson 1990; on South Korea and Thailand, Kwon 1998 and Wade 1990; on India, Dhar 2000 and Jalan 1992. A more general, particularly valuable study, which is also a good source of information about specific countries, is Haggard 1995, which analyzes policy changes in developing countries in the recent past to assess the nature, extent, and consequences of their closer economic integration into the world economy. Another more general, informative study is Waterbury 1993, which is focused on the performance of public enterprises in selected developing countries. Grindle and Thomas 1991 studies changes in economic policy in developing countries, particularly in the 1980s, to assess the roles of decision makers and policy managers, as well as the choices they make.

2. For a forceful critique of development theory and policy from a neoclassical point of view, see Lal 1983.

3. For a general discussion of inward-looking and outward-oriented policies, as well as an account of trade liberalizing measures in the 1970s and 1980s, see World Bank 1987, chaps. 5–6.

4. How far the exceptional economic performance of South Korea and Taiwan was an outcome of state-directed or free market policies was, for a time, a matter of heated controversy among Western economists. Robert Wade's 1990

book, which is an extensive, empirical study of policies in Taiwan—with forays into South Korea and Japan—focused attention on the effectiveness of the mix of public and private initiatives. For a more recent, retrospective, and balanced analysis of performance in both South Korea and Taiwan, see Kwon 1998.

Chapter 9

1. The Single Market program was initiated in the 1980s for completion in 1992. It contained over 280 legislative measures intended to ensure the free movement of goods, persons, services, and capital within the European Community. One major area it addressed, for instance, was the harmonization of technical standards or of standards applied to protect public health and consumer safety; another was the harmonization of value-added tax imposed within countries. For more background and information, see Bainbridge 1998.

2. For comprehensive accounts of the Uruguay Round negotiations, see Preeg 1995; Croome 1995. Both accounts explore the substance of the negotiations and the shifting positions of the different parties in considerable detail. Preeg, a former U.S. trade negotiator, also provides a valuable commentary on political ideas and interests in the United States that bore on the American position. Croome, a former GATT official, offers an evenhanded account of the positions of all the main parties.

3. Shortly before the idea of the organization was taken up in the Uruguay Round negotiations, it was extensively developed by John Jackson, a well-known American authority on GATT legal issues (see Croome 1995, 272).

4. It thus opened up the possibility of cross-retaliation; this meant that if a country failed to abide by, for example, the terms of the agreement covering intellectual property rights, it could be penalized by retaliatory action taken against, for example, its merchandise exports.

5. For example, the use of import restrictions ostensibly to defend the balance-of-payments but actually to protect domestic industries would be challenged. In the course of the Uruguay Round, a number of developing countries—including Brazil—announced that they would remove such restrictions. See United Nations Conference on Trade and Development 1994, 159; Preeg 1995, 134.

6. Frans Andriessen, then trade commissioner for the European Community, warned the United States against unilateral action, arguing that effective dispute settlement machinery was not possible if one party had its own way of dealing with disputes (see *The Financial Times,* April 6, 1990).

7. This was not a ploy in a subtle American strategy to strengthen GATT dispute settlement. American negotiators favored strengthened adjudication and enforcement machinery, but they were reluctant to relinquish the power to act independently.

8. However, each country was allowed to grandfather one agreement. For a fuller account of the new conditions, see Preeg 1995, 199.

9. Over the course of the ten years, quotas on individual textile and apparel products were to be gradually eliminated, and imports under the quotas were to be increased by stated amounts. However, by the end of the ten-year period, only about half of the quotas on individual products would have been eliminated. This back-loading of the process of elimination left the importing countries with a huge reduction to make in the last year, and many wondered whether their governments would muster the political determination to confront protests from domestic industries.

10. Adam Smith long ago recognized the legitimacy of such protection. He noted that when the free importation of goods has been interrupted for some time and when competing domestic producers have come to employ many people, "humanity may in this case require that the freedom of trade should be restored only by slow gradations and with a good deal of reserve and circumspection" (Smith 1937, 435).

11. Discrimination was still permitted, however, under certain exceptional circumstances.

12. For more detailed descriptions, see Croome 1995, 302–3; Preeg 1995, 197–98.

13. At one point in the negotiations, the United States rejected the idea of a general obligation (see *The Economist,* December 1, 1990). This was tantamount to saying that it did not want multilateral rules for trade in services and that on services, it would negotiate bilateral agreements with individual trading partners.

14. The group included Argentina, Australia, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, the Philippines, New Zealand, Thailand, and Uruguay.

15. Unlike in subsidies of manufactures, however, where the wrongful subsidization of individual products could be penalized by the imposition of countervailing duties, countries expressed their commitment in terms of aggregate budgetary outlays on subsidies and in quantities of products benefiting from subsidies. Subsidies deemed to have minimal trade-distorting effects, such as production-limiting programs or income support programs, were excluded from the expenditure to be reduced.

16. For a fuller discussion, see Wolf and Winters 1996.

17. For a fuller discussion, see United Nations Conference on Trade and Development 1994, 158–59. For a discussion of the U.S. position on special and differential treatment for developing countries, see Preeg 1995, 70–74.

18. During the round, Japan and India, supported by other countries, such as Australia, New Zealand, and South Korea, had questioned the relation between these regional or bilateral agreements and the multilateral rules (see Croome 1995, 99). The underlying fear that these efforts of the economically most powerful to gain market access for themselves might lead to discriminatory practices was not assuaged.

Chapter 10

1. Both members of customs unions and members of free trade areas eliminate all, or most, of their tariffs in trade with each other. However, members of a free trade area retain their own external tariffs, whereas members of a customs union adopt a common external tariff. Customs unions and free trade areas are, in principle, differentiated from other preferential trading arrangements by the fact that the elimination of tariffs on members' trade with each other is comprehensive. Complete elimination has, however, been more the exception than the rule—at least in the earlier phases of a new arrangement. There is, moreover, the question of how far nontariff barriers are eliminated or reduced. In other words, there is no sharp line of differentiation between customs unions or free trade areas, on the one hand, and preferential trading arrangements, on the other. For a succinct discussion of both theory and GATT practice relating to this issue, see Bhagwati 1991, chap. 5.

2. For the views of one leading scholar, as pungently expressed in the media, see Bhagwati 1998.

3. For a forceful expression of this view, see the letter by Rudiger Dornbusch in *The Economist,* May 4, 1991, 67.

4. For a comprehensive review and analysis of postwar regional trading arrangements, see World Trade Organization 1995. For arrangements made in the most recent years, see the WTO's annual reports. (Member countries are required to notify the WTO of arrangements that they are entering into.)

5. For two synthesizing descriptions and economic appraisals of the European Union's network of free trade agreements, see Messerlin 1999; Pelkmans and Brenton 1999.

6. The preferential arrangements made by the European Union under its Generalized System of Preferences are not discussed here; they are not contractual trading arrangements among countries.

7. See Roberts 1999. There has been a considerable gradation in the European Union's agreements; they have ranged from association agreements that imply the promise of full membership at some time in the future to limited free trade agreements (see Pelkmans and Brenton 1999, table 4.1).

8. An exception was the free trade agreement drawn up with Canada in 1965 covering trade in cars and car components.

9. The main economic argument used by the U.S. administration in support of the U.S.-Israeli agreement was the need to counter trade diversion. Phased reductions in Israeli tariffs on European goods were in the process of being implemented under the free trade agreements signed between Israel, on the one hand, and the European Community and EFTA, on the other. (See the comment by Alfred Tovias in Memedovic et al. 1999, 41.)

10. See *New York Times,* February 4, 1997.

11. The Caribbean Basin Initiative Enhancement Act of May 2000 modified the Caribbean Basin Initiative. The latter, introduced by the United States in the 1980s, had already extended preferential treatment to certain products.

12. See *The Financial Times,* January 27, 1992.

13. For an analysis of developments in the region in the late 1990s, see Bergsten 2000.

14. Mercosur threatened to unravel after the Brazilian financial crisis of 1998. Brazil devalued substantially, while Argentina continued to maintain its dollar-peso parity under its currency board system. With this radical shift in the exchange rate relationship between the two countries, the competitive position of each country's export industries in the other country's market changed dramatically.

15. For appraisals of the economic benefits for Latin American countries of free trade agreements with the United States, see Agosin and Alvarez 1994; Erzan and Yeats 1992. Both appraisals are skeptical of the benefits for most countries. The former concludes that, leaving aside Mexico and the countries around the Caribbean Basin, the benefits would, at best, be modest and that the costs of diversion could be significant.

16. The Central and Eastern European countries responded to this situation by negotiating a network of free trade agreements with each other.

17. *The Financial Times,* January 2, 1992.

18. For one exposition of this view, see Bergsten 1997, 4–5.

19. For a review of the literature on trade diversion, see Frankel 1997; for an update, see Anderson 2001.

20. For an analysis of this problem, see Krueger 1997, 9–24.

Chapter 11

1. In the United States, annual growth in total output rose to 3.4 percent between 1991 and 1999. The European Union recorded a lower, but still respectable, rate of expansion, at 2.3 percent. In Japan, the rate was less than 1 percent. For the developing countries as a group, the pace of growth was 4.3 percent per annum. South Asia improved on its own past performance, reaching 5.5 percent per annum (United Nations 1999).

2. When writing in 1921, J. H. Clapham, a distinguished British economic historian, was equally impressed by the growth of interdependence during the nineteenth century. Britain had become highly dependent on food imports, as had other European countries on imports of raw materials. But the interdependence extended beyond trade. Through share ownership, foreign participation in ownership of companies had increased, and many companies had foreign affiliates. Moreover, a variety of cartel and cartel-like agreements among concerns of different countries divided up international markets and even fixed prices internationally. Clapham observed: "With the railway and the telegraph the world had become one market. With the spread of a fairly uniform company law and of a uniform commercial practice, it was tending to become a single economic organism" (Clapham 1955, 401).

3. As a general proviso, I note that the structure of the world economy has changed greatly in the interim, which may invalidate judgments based on simple statistical comparisons.

4. The foreign trade data, moreover, take no account of the production and sale of goods and services in foreign countries by the affiliates of multinational corporations. For the United States, for example, the gross product of majority-owned foreign affiliates in 1998 amounted to $610 billion. This measures the contribution of these corporations to the gross domestic product of the host countries. Though not a strictly comparable figure, U.S. exports of goods and services in the same year amounted to $1,191 billion. (See U.S. Bureau of Economic Analysis 1999.)

5. By the end of 1999, the WTO had 135 members.

6. The progress of negotiations on these issues is recorded in the annual reports of the WTO.

7. This was the opinion of Wendy Dobson and Pierre Jacquet, who carried out a detailed study of the effect of the new agreement on the financial sectors of a few countries (Dobson and Jacquet 1998).

8. See *Wall Street Journal,* February 5, 1997.

9. For summaries of the disputes and the rulings, see the WTO's annual reports. For a commentary on how institutional changes have affected the number of disputes submitted to GATT and the WTO, see Barfield 2001, 32–36.

10. Prior to completion of the Single Market program in 1992, the member states had different import regimes for certain products. Britain, France, and Spain had quota systems for banana imports, which provided a protected market to former colonies and overseas territories. The Single Market program introduced a unified regime that, in effect, restricted the access of Latin American producers to their former markets in Germany and other countries.

11. Both issues and personalities played their parts in souring relations. The Helms Burton Act was one serious irritant. This act threatened to penalize Canadian or European firms that had bought property in Cuba formerly expropriated from American enterprises. For a lively report on the conflicts among the leading personalities engaged in the disputes at the time, as well as for an analysis of the underlying causes of the trade disputes between the United States and the European Union, see de Jonquières 2001.

12. The European Union argued that the U.S. legislation, which provided export income with relief from income taxes, was an export subsidy.

13. For one collection of essays expressing such opposition, see Nader et al. 1993. The collection also includes essays by writers from developing countries, putting forward their points of view.

14. For a balanced statement of these concerns, see Bronk 1998, chap. 8.

15. Among the more important of these agreements are the Montreal Convention on Chlorofluorocarbons (CFCs), a chemical damaging the ozone layer, and the International Whaling Convention, which protects an endangered species. Recently signed, in 2000, was the Cartagena Protocol on Biosafety, which deals with trade in genetically modified substances. All three agreements place restrictions on trade.

16. For one statement of this position, see Sierra Club 1994.

17. Also, following the signing of a bilateral trade agreement with Cambodia in 1996, the United States apparently assigned Cambodia a textile import quota that was to be subsequently increased on condition that Cambodia met "core" labor standards. See *New York Times,* July 12, 2001.

18. International agreement has been reached on a set of "core" labor standards. In 1998, the member countries of the International Labor Organization adopted the Declaration on Fundamental Principles and Rights at Work, which obliged them "to respect, to promote and to realize" the principles of seven ILO conventions defining "core" labor standards. These included conventions relating to the prohibition of forced labor, the rights of association and collective bargaining, nondiscrimination, equal remuneration, and a minimum working age.

19. For another discussion of this issue, see Brown, Deardorff, and Stern 2001.

20. Chris Patton, the last British governor of Hong Kong, has given a forceful description of such a response in Chinese-American relations. The U.S. Congress annually held a debate on whether to extend most-favored-nation treatment to China for another year. This was seen as an opportunity to exert leverage on China, and a range of issues running from human rights to nonproliferation was discussed. But China countered with hints about diverting major commercial contracts from the United States to other countries, and the threat to withhold the extension was never carried out. See Patton 1998, 264–65.

21. The traditional channel has been the diplomatic representations of individual governments. But in recent decades, numerous citizen groups and some business groups—particularly in the industrially more established countries—have become very active in promoting broader international acceptance of various social standards. An influential tactic in the field of labor rights has been the use of consumers' buying power to boycott or threaten to boycott the products of corporations tolerating sweatshop conditions in the factories of their overseas suppliers. On a more general plane, the United Nations—on the initiative of Kofi Annan, the secretary-general—brought together about fifty multinational corporations and twelve international labor organizations to sign a "global compact" in support of nine broad principles addressing human rights, labor rights, and the environment (see *New York Times,* July 27, 2000).

22. For studies on competition policy in the global economy, see Scherer 1994; Graham and Richardson 1997.

23. The Egyptian trade minister famously remarked at Seattle: "Why, all of a sudden, when Third World labor has proved to be competitive, do industrial countries start feeling concerned about our workers?" (quoted by David Sanger in "All the World's a Mall," *New York Times Book Review,* April 30, 2000).

Appendix

1. The theories of the liberal institutionalists have been subject to criticisms from the political scientists who hew closer to the older school of realism. For a comparative analysis by a realist, see Grieco 1990.