

Stehn, Jürgen

Working Paper — Digitized Version

America's departure from multilateralism: Highway or dirt road to freer trade?

Kieler Diskussionsbeiträge, No. 212

Provided in Cooperation with:

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

Suggested Citation: Stehn, Jürgen (1993) : America's departure from multilateralism: Highway or dirt road to freer trade?, Kieler Diskussionsbeiträge, No. 212, ISBN 3894560533, Institut für Weltwirtschaft (IfW), Kiel

This Version is available at:

<https://hdl.handle.net/10419/774>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

America's Departure from Multilateralism Highway or Dirt Road to Freer Trade?

by Jürgen Stehn

CONTENTS

- The formation of the North American Free Trade Area (NAFTA) and more recently the aggressive retaliation measures taken against the European steel industry indicate that the US is turning towards a new trade strategy that favours the establishment of additional free trade zones under US leadership and a policy of aggressive bilateralism.
- The regionalists' camp maintains that the effectiveness of multilateral trade negotiations within the GATT has eroded as a result of (a) the growing subtlety of the issues that must be dealt with, (b) the changing character of the protection measures, (c) the decline of US hegemonic power, and (d) the deepening of European integration. However, it can be reasonably doubted that regional pacts can do what multilateral negotiations cannot:
 - Even the most ambitious regional trading bloc, the EC, has been unable to deal with such subtle issues as the dismantling of national subsidy schemes and the abolition of anti-dumping measures. Similarly, no agreement on the curtailment of US anti-dumping practices could be reached in the negotiations on the creation of the NAFTA.
 - The experiences of the interwar period elucidate that the world does not need a hegemon to push forward international trade negotiations, but rather a country that is strong enough to keep special domestic interests under control and that is, therefore, in a position to take the first step in launching a new round of negotiations in order to bring all parties to the table. Yet, there are no reasons to assume that a move towards regionalism will reduce the power of domestic interest groups.
 - Given that the deepening of EC integration indeed contributed to the erosion of the multilateral process of trade negotiations, the straightforward conclusion would be to refrain from setting up any further free trade areas because setting up additional regional trading blocs would multiply existing problems.
- The history of international trade negotiations clearly shows that a policy of aggressive bilateralism leads into a nearly endless spiral of retaliation rather than towards a liberalisation of world markets. The current problems in the GATT system could better be resolved by partially turning away from the unconditional most-favoured-nation (MFN) principle, engaging instead in multilateral negotiations that accord MFN status on a conditional basis. It is important, however, that these agreements offer third countries open access on a conditional basis.

Contents

I. Introduction	3
II. Benefits and Costs of Regional Trading Blocs	3
1. Welfare Economic Considerations	3
2. Political Economy Effects of Regional Trading Blocs.....	6
a. Reference System: Multilateral Negotiations within the GATT.....	6
b. Arguments of the Regionalists' Camp: An Evaluation	9
III. Pros and Cons of Aggressive Bilateralism	13
IV. Free-Riders, Foot-Draggers, and the Conditional Most-Favoured-Nation Principle	15
Bibliography.....	18

Die Deutsche Bibliothek - CIP-Einheitsaufnahme

Stehn, Jürgen:

America's departure from multilateralism : highway or dirt
road to freer trade? / By Jürgen Stehn. Institut für
Weltwirtschaft Kiel. - Kiel : Inst. für Weltwirtschaft, 1993

(Kieler Diskussionsbeiträge ; 212)

ISBN 3-89456-053-3

NE: GT



Institut für Weltwirtschaft an der Universität Kiel

Postfach 43 09, D-2300 Kiel 1

Alle Rechte vorbehalten

Ohne ausdrückliche Genehmigung ist es auch nicht

gestattet, den Band oder Teile daraus

auf photomechanischem Wege (Photokopie, Mikrokopie) zu vervielfältigen

Printed in Germany

ISSN 0455 - 0420

I. Introduction

After having guaranteed the functioning of the multilateral system of trade negotiations within the General Agreement on Tariffs and Trade (GATT) for more than 40 years, the United States is obviously changing its trade strategy. There is an ongoing debate within the Clinton administration and among leading US economists on the potential benefits and costs of multilateral trade talks. The formation of the North American Free Trade Area (NAFTA) and more recently the aggressive retaliation measures against the European steel industry and the announcement of further tariffs on European and Japanese exports indicate that the United States has lost confidence in the effectiveness of the GATT process and will likely turn towards a new trade strategy favouring the establishment of additional free

trade zones under US leadership and a policy of aggressive bilateralism.

This paper investigates whether an American departure from multilateralism leads on a highway or a dirt road to freer trade. In Section II.1, the analysis starts with a brief discussion of the welfare effects of regional trading blocs. In Section II.2, the political economy effects of the GATT process of multilateral trade negotiations and the formation of free trade areas will be discussed. Section III examines the pros and cons of a policy of aggressive bilateralism. In Section IV, it will be shown that a multilateral system of international trade negotiations being built upon a conditional most-favoured-nation (MFN) principle might be the first-best solution to the current problems of the GATT.

II. Benefits and Costs of Regional Trading Blocs

1. Welfare Economic Considerations

A discussion of the welfare effects of customs unions and free trade areas has to start with a brief restatement of Viner's [1950] classic analysis of trade creation and trade diversion because it is still the basis for all welfare economic analyses of preferential trading blocs. His main contribution to trade theory was to destroy the then common view that any preferential move towards freer trade would improve world welfare.

Viner's concept of trade creation and trade diversion can best be illustrated within a three-

country, one-commodity model. Assume that the countries A, B, and C are producing a homogeneous good Q and that country A is the highest cost producer of Q, B the lowest cost producer, and C the intermediate cost producer. Assume further that country A imposes an ad valorem tariff on imports from B and C which is sufficiently high to entirely divert country A's demand for Q from the lowest cost producer B to domestic import-competing suppliers. If, under these initial conditions, countries A and B decide to establish a customs union or a free trade area A will shift its demand from the domestic highest cost pro-

ducers to the lowest cost suppliers in country B. The trade creating effect of a removal of trade barriers between A and B obviously improves world welfare, since it leads to a more efficient allocation of world resources.

Note that the realisation of gains from trade creation heavily depends on the height of the initial tariff. Given that the initial trade barriers erected by country A are not high enough to divert consumers' demand from B to A, the formation of a free trade area between A and B will not lead to any trade creation at all. That is not to say that an elimination of tariff barriers does not improve world welfare. After economic integration, consumers in country A are better off than before, since their real income increases due to the reduced domestic price of good Q; but this welfare effect is independent of the degree of trade creation. We will return to this point in more depth later on. What can be said at this stage of analysis is that any creation of a customs union or a free trade area between the highest cost producer and the lowest cost producer of a certain commodity is advantageous in terms of economic welfare.

Assume alternatively that the initial tariff imposed by country A is not sufficient to cause country A's consumers to replace imports from country B with domestically produced goods and that A enters a customs union or a free trade area with C, the intermediate-cost producer. In this case, the consumer price in A of imports from the intermediate-cost producer C falls below the consumer price of imports from the most efficient producer B. Consequently, consumers substitute intermediate-cost products for lowest cost products and trade is diverted from third country B to union member C. In this case, trade diversion leads to a less efficient allocation of resources compared to preintegration. As in trade creation, the occurrence of trade diverting effects depends on the height of the initial tariff. If the tariff raises preintegration consumer prices of country B's exports to a level above the production cost of

Q, consumers will buy highest cost products prior to integration and the formation of a customs union will cause a shift from inefficiently produced domestic goods to the intermediate-cost products of union member C. In this case, trade diversion does not occur and economic integration is welfare increasing due to the internal trade creation within the customs union.

More generally, Viner's approach elucidates that the less initial trade there was with non-members prior to integration, the smaller the scope for potential trade diversion after the formation of a customs union or a free trade area is. Thus, the economic integration of close trading partners might rather be trade creating than trade diverting.

From the viewpoint of Viner's rather narrow concept of trade creation and trade diversion, the formation of customs unions and free trade areas is almost as likely to be welfare increasing as welfare decreasing. This conclusion seems, however, somewhat too pessimistic, since the concentration on static intercountry substitution effects covers some potential gains from preferential trading areas. By turning from a one-commodity model to a world where a variety of goods, ranging from close substitutes to complementaries, is traded, it can easily be demonstrated that even a Vinerian trade-diverting integrated area can improve world welfare. In this more realistic world, consumers not only substitute between different regional suppliers but also between different commodities as a reaction to the formation of a customs union or a free trade area. Intercommodity substitution occurs because economic integration eliminates the disparity between the domestic and international price ratios of all commodities traded among the partner countries [Lipsey, 1960]. Due to the resulting change in the relative prices of tradables, consumers substitute a relatively lower priced commodity produced in the partner country for a different but higher priced domestic good. Thus, intercommodity substitu-

tion can compensate for the welfare losses from Vinerian intercountry substitution. Whether the adjustment in relative prices is indeed sufficient to leave the world better off after the formation of a trade-diverting preferential trade area depends, however, on the magnitudes of the relevant price elasticities.

Moreover, the dynamic effects of economic integration may mitigate the beggar-thy-neighbour effect of customs unions and free trade areas:

First, as the real income of consumers within the integrated area rises as a result of the decreasing absolute prices of imported goods, the demand for extracommunity imports is — depending on the height of the relevant price elasticities — likely to increase.

Second, the removal of trade barriers within a preferential trading area strengthens competition among the suppliers located in different member countries. The opening of formerly segmented markets not only leads to intercommodity substitution but also fosters the development of new competitive products as well as advanced production technologies that in turn pushes up real incomes and, therefore, the demand for imports from third countries.

Third, firms may reallocate their investment funds after the formation of a customs union or a free trade area, since they are no longer forced to follow a defensive foreign investment strategy in order to overcome high trade barriers. Instead of developing strategies to circumvent the costs of artificial market segmentation, firms are free to make their investment decisions on the basis of the real economic advantages of foreign locations. In addition, economic integration reduces the risk and uncertainty of foreign investments because potential investors in member countries are no longer faced with the risk that protectionist tendencies in commercial policy will render the return on their investments unprofitable.

Fourth, firms acting in oligopolistic markets may be in a position to realise economies of

scale due to the elimination of market segmentation within a free trade area or a customs union. It is often argued that it was the rationalisation of production, which the Treaty of Rome made possible, and the associated huge rise in intraindustry trade in manufactures that turned the European Common Market into a strong economic success from the viewpoint of both insiders and outsiders. In a similar vein, all calculations of the likely effects of Europe 1992 or the formation of the NAFTA largely rest on gains from increased rationalisation and competition [see, e.g., Gasiorek et al., 1992; Adams et al., 1991; Almon, 1990].

Taking into account the potential welfare-improving forces of regional economic integration that go beyond the mere trade creating effects of Vinerian intercountry substitution and the fact that almost all empirical estimates of the benefits and costs of European and North American integration show that the world will be better off after integration, it can be realistically assumed that preferential trade arrangements are more likely to raise than to lower world welfare. As Kemp and Wan [1976] demonstrated, any subset of countries can always proliferate a customs union in such a way that the welfare of nonmembers stays unchanged and the welfare of members is improved, i.e. proliferate a Pareto-efficient customs union. The basic idea of their approach is that a reduction in external tariffs can always compensate for the initial trade diverting effects of a customs union. However, from a more realistic viewpoint, it seems rather doubtful that a group of countries forming a free trade area will always be ready to lower external tariffs so as to keep their trade with the outside world unchanged.

In a recent article, Krugman [1991a], although being an advocate of free trade zones on political economy grounds, argues that a preferential trading area will rather move in the opposite direction. His reasoning is based on the theory of the optimal tariff. Given that the

optimal tariff for a country aiming at improving its terms of trade at the expense of the rest of the world is higher, the lower the elasticity of world demand for its exports is, it is obvious that — due to the monopoly power of a trading bloc — the optimal tariff of a customs union will normally be higher than the optimal tariff of its members. But again, we have to ask whether governments will really behave in such a way. If politicians were indeed eager for improving the welfare of their citizens, as the theory of the optimal tariff supposes, the first-best strategy would be to remove trade barriers unilaterally. However, the actors in commercial policy obviously do not behave as welfare theory predicts. Thus, to get to the heart of the current debate on the pros and cons of preferential trading arrangements it is necessary to turn to the political economy effects of free trade zones.

2. Political Economy Effects of Regional Trading Blocs

Although there is a lively debate on the potential benefits and costs resulting from the formation of further regional trading blocs, it is widely agreed between the advocates of a move towards regionalism and the defenders of the multilateral system of worldwide trade negotiations that preferential trade arrangements can — under certain conditions — reduce the welfare of third countries. The ongoing discussion rather concentrates on the ability of the GATT to successfully deal with the current protectionist tendencies in the world economy. The regionalists' camp, including such well-known economists as Dornbusch, Krugman, and Thurow, states that the GATT process has run out of steam or is even nearly dead. According to the "Memorial Drive School", as Bhagwati [1992] called the para-

digm of the regionalists,¹ the effectiveness of multilateral trade negotiations within the GATT has eroded due to the growing subtlety of the issues that must be dealt with, the changing character of the protection measures, the decline of US hegemonic power, and the deepening of European integration [see Dornbusch, 1990; Dornbusch et al., 1989; Krugman, 1991b; Thurow, 1991].

The arguments of the advocates of free trade areas can best be evaluated against the background of the main (theoretical) advantages of the multilateral road to trade liberalisation.

a. Reference System: Multilateral Negotiations within the GATT

The principal pillars on which the multilateral system of trade negotiations within the GATT is erected, the principle of nondiscrimination and the concept of "first-difference" reciprocity, are widely regarded as the driving force of the fairly successful steps towards trade liberalisation in the last 40 years. But it is not its mere binding to these two principles that makes the multilateral approach advantageous, at least theoretically, but the virtuous interaction between them in combination with the huge number of participants in the round-table negotiations.

Nondiscrimination in the GATT sense consists of two paradigms: the "Most-Favoured-Nation" (MFN) clause and the concept of "national treatment". The MFN clause provides that, apart from exceptions on which the negotiating parties have agreed, imports from all sources should face identical trade barriers, whereas the concept of national treatment requires that with regard to taxes or regulations foreign goods are to be treated in the same way as domestic goods. Neither the MFN clause nor the principle of national treatment are

¹ Note that the MIT department of economics is at 50 Memorial Drive in Cambridge, Massachusetts.

special characteristics of multilateral negotiations. They are just individual ingredients listed in the recipe for multilateralism that can also be successfully used to push bilateral or plurilateral agreements forward to multilateral commitments.

Take, for example, the United States' Reciprocal Trade Agreement Act (RTAA) of 1934, which aimed at mitigating the effects of the disastrous Hawley-Smoot-Tariff (HST) of 1930. The HST had raised US tariffs significantly and generated widespread retaliation against US exports so that an opening of US markets was a necessary precondition for paving the path towards foreign markets. Thus, the US government negotiated reciprocal tariff cuts with trading partners on a bilateral basis and was at the same time prepared to offer potential contractors an unconditional MFN status. Under the RTAA, twenty trade agreements were signed covering about 30 per cent of US exports and approximately 45 per cent of imports [Curzon, 1965]. The offer of an MFN status might have been necessary to make the negotiation of a sequence of bilateral deals possible, since no country would agree on bilateral tariff cuts with the US if it were faced with the danger that in a following negotiation another country would get access to the US market at a lower rate [Winters, 1990]. Nevertheless, the combination of bilateral negotiations with the MFN clause resulted in a multilateral trade liberalisation. The example of the RTAA shows that the application of the MFN clause is not confined to multilateral trade negotiations. Thus, nondiscrimination alone is not sufficient to justify a multilateral approach of trade liberalisation.

The same holds for the principle of first-difference reciprocity, which is an essential pillar of GATT negotiations, although it has never been defined by the Agreement. Reciprocity, being as old as trade policy itself, expresses a neomercantilist view of international trade. In contradiction to economic theory,

which recommends unilateral tariff cuts, it supposes that increasing sales instead of consumer welfare is the chief objective of trade policy and that trade liberalisation is imposing costs rather than generating gains. Since most politicians and noneconomists in general are following a neomercantilist paradigm, first-difference reciprocity may serve as an engine for trade liberalisation due to at least four reasons [Bhagwati, 1990, p. 1313]:

- The mutuality of concessions expresses fairness and, therefore, makes the necessary domestic adjustments arising from the increased external competition politically more acceptable for the domestic losers of trade liberalisation.
- Being faced with the willingness of trading partners to lower trade barriers on a mutual basis, domestic interest groups might lessen their opposition to trade liberalisation.
- Given the importance of “second-best” considerations in the political debate, short-run effects of trade liberalisation such as balance-of-payments difficulties can raise resistance to the removal of trade barriers. Due to the mutuality of liberalisation, reciprocity can serve as a means to mitigate these short-run effects.
- Governments may feel like “double winners” if their trading partners liberalise while they are also liberalising.

It is obvious that reciprocity can also act as a driving force for trade liberalisation in bilateral or plurilateral negotiations. Hence, what makes multilateral trade talks advantageous compared to bilateral and plurilateral negotiations is that they bring together simultaneously a huge number of participants that are willing to negotiate reciprocal concessions according to the MFN principle. The fact that all potential contractors are negotiating at the same

time increases the number of potentially liberalising deals. Thus, the benefits of multilateralism are similar to the benefits of money over barter [Lawrence, 1990, p. 136]. Successful bilateral negotiations, like barter, require a double coincidence of wants. In multilateral negotiations, however, a country may be willing to offer a concession to one trading partner if it obtains a different benefit from another trading partner. Moreover, multilateralism allows the formation of coalitions that can ease the bargaining process. A country unwilling to negotiate bilateral concessions may be prepared to lower its trade barriers if it can obtain access to markets in two or three other countries.

The combination of reciprocity and MFN is not easy to manage in multilateral negotiations.² First, it requires that any agreement between two countries A and B is to be extended to all participating nations. This procedure generally creates a free-rider problem, for all countries are in a position to benefit from A and B's agreement without offering any concessions. Second, a mechanism has to be developed that increases the number of potentially liberalising deals, i.e. that allows for cross-country concessions and the formation of coalitions. It is one of the main merits of the GATT that it offers a solution to both problems.

The latter problem was dealt with by an escape clause in the negotiation rules providing that all concessions are provisional until the complete package of agreements is signed. This procedure extends the initially bilateral concept of reciprocity to a multilateral one and therefore facilitates the formation of coalitions in the GATT negotiations as well as the negotiation of cross-country concessions. It also strengthens the position of countries being

prepared to make concessions against potential free-riders. In order to further curtail the motivation to free-ride, the negotiation procedures of the early GATT Rounds extended the mercantilist spirit of the bargaining process by partly diverting the benefits of a MFN concession to the countries that have negotiated it. The underlying trick was a rather simple one. The negotiations were conducted bilaterally on basis of the so-called request-and-offer system, i.e. a country offered a concession A if a partner country offered a concession B. However, a country was only allowed to request a concession on a given product if it was in the position of a "principal supplier", i.e. if it held the largest share of the imports of the partner country. The principal supplier rule minimised the spillovers to potential free-riders and maximised the bilateral internalisation of the gains resulting from an agreement between the negotiating countries.

According to an analysis by Finger [1979], the implementation of the principal supplier rule in the early GATT negotiations has led to impressive results (Table 1). Finger estimated the percentage of imports on which tariff reductions and bindings were negotiated (coverage of tariff reductions) as well as the bilateral and multilateral internalisation of the gains resulting from each round of GATT negotiations. The share of bilateral internalisation lies within a spectrum ranging from 35 per cent in the Annecy Round, where the negotiations were confined to only five new accidents, to 74 per cent in the second Geneva Round. However, as a result of the high share of bilateral internalisation reached in the first five GATT Rounds, the fraction of imports covered by negotiation fell from 56 per cent in the first Geneva Round to 19 per cent in the Dillon Round. This development reflects the growing tendency to negotiate tariff cuts in very narrowly defined product categories which in turn was a result of the principal supplier rule. After the first GATT Round, it became increas-

² See Winters [1990] for an excellent analysis of the negotiation procedures of the multilateral trade talks within the GATT.

ingly difficult to identify commodities on which to negotiate because each round was harder pressed than its predecessor to find mutual principal supplier concessions. During the Dillon Round, the participants hardly found anything to talk about due to the limitations provided by the principal supplier rule. As a consequence, the negotiating parties decided to refrain from product-by-product negotiations and to introduce a formula-based system of linear tariff cuts with exceptions [Winters, 1990]. This turn to a multilateral procedure of trade negotiations clearly strengthened the main advantages of the GATT by increasing the number of potentially liberalising deals, as is indicated by the huge rise of the coverage ratio after the Dillon Round negotiations.

Table 1 — Coverage of Tariff Reductions and Internalisation of Gains in Early GATT Rounds (per cent)

GATT Round	Coverage of tariff reductions	Internalisation	
		bilateral	multilateral
Geneva Round, 1947	56	n.a.	84
Annecy Round, 1949	6	35	39
Torquay Round, 1951	15	58	64
Geneva Round, 1956	20	74	89
Dillon Round, 1960–61	19	69	96
Kennedy Round, 1964–67	64	n.a.	91

Source: Finger [1979].

b. Arguments of the Regionalists' Camp: An Evaluation

The regionalists' camp concedes that the negotiation procedures of the multilateral system of trade talks helped to reconstruct world trade after World War II, but doubts for several reasons that the GATT still has substantial forward momentum [Dornbusch, 1990, pp. 117 ff.]. The growing subtlety of protectionist measures is regarded as one of the most important barriers to further multilateral steps towards trade liberalisation. Increasingly, trade negotiations must deal with problems that can-

not be solved by removing barriers at national borders, since intranational policy measures such as the subsidisation of high-technology and depressed industries or the regulation of domestic markets have put on weight in international trade policy. It is argued that regional free trade agreements among close neighbours are in a better position to tackle these subtle issues because the governments of neighbour states "understand and trust one another to negotiate at a level of detail and mutual intrusiveness that parties to global negotiations cannot" [Krugman, 1991b, p. 19]. But are free trade areas and customs unions among close neighbours indeed advantageous with respect to the curtailment of subsidies and the removal of market regulations? The history of the most ambitious regional trading bloc, the EC, rather points to the opposite direction.

Although government subsidies have been an essential instrument of national economic policy in the member states of the EC since the ratification of the Treaty of Rome, it took almost 15 years to put the dismantling of national subsidy schemes on the agenda of the Council of Ministers. However, this is not to say that the member states have been striving for a reduction of national subsidies since the early 1970s. The chief objective of the Commission of the EC, which is responsible for the supervision of national aid schemes, is to coordinate and harmonise the granting of subsidies for depressed and high-technology industries as well as backward regions within the Community in order to minimise the competition distortion effects of national aid. The main instrument of EC aid supervision is the publication of binding guidelines and directives including qualitative provisions for the proliferation of national subsidy schemes. However, most guiding rules are so roughly defined as to leave broad space for the governments of member states to establish own subsidy programmes following national interests, as Table 2 indicates. The share of sectoral aid in total

government subsidies varies between 91.6 per cent in Luxembourg and 27.6 per cent in Greece, that of regional aid ranges between 21.1 per cent in Italy and 1.3 per cent in Denmark, whereas general subsidies are notably preferred by the Greek government with 55.1 per cent. Within the main categories of sectoral and general subsidies the aid schemes of member states also follow national interests. In the area of sectoral aid, the subsidies granted to agriculture in Denmark, Ireland, and the Netherlands, to the steel industry in Luxembourg, Belgium, and France, to shipbuilding in Denmark and the United Kingdom and to coal mining in Belgium, Germany, and the United Kingdom are well above the EC average. Thus, it seems to be too optimistic to argue that a free trade bloc among close neighbours would be in a better position to coordinate or even cut national subsidies compared with a multilateral system of trade negotiations.

From a theoretical viewpoint, this conclusion is not surprising. As long as almost all governments follow a neomercantilist para-

digm in international trade negotiations, no major steps towards the curtailment of subsidies will be undertaken in bilateral or plurilateral trade agreements, since third countries would gain from these commitments without offering any concessions. The free-rider problem can only be resolved in multilateral negotiations.

Contrary to the reduction of subsidies, the efforts to deregulate national markets within the EC by harmonising or even removing technical standards and other market segmentations have been rather successful. One should realise, however, that the negotiations on the completion of the European Common Market only started in 1986 with the agreement on the Single European Act and that it took 34 years to partially create a common market.

Can free trade areas and customs unions better deal with the new protectionist instruments like voluntary export restraints, anti-dumping measures, or orderly marketing agreements than the GATT? Again, the reason-

Table 2 — General, Sectoral, and Regional Subsidies in EC Member Countries, 1981–1988 (per cent)

	B	DK	G	F	GR	IRL	I	L	NL	GB	EC-10
General subsidies	4.3	18.9	12.9	20.3	55.1	33.8	32.3	3.5	25.5	16.8	22.6
Research and development	2.8	8.5	7.2	1.3	5.7	0.9	2.6	0.2	4.6	5.8	3.9
Environment and energy	0.2	3.9	1.3	0.5	0.0	0.0	0.4	0.0	3.1	0.2	0.7
Small and medium enterprises	2.9	0.3	2.5	0.4	3.4	1.2	2.6	1.2	13.0	1.4	2.3
Trade, export	2.4	5.9	0.5	12.5	45.9	31.7	4.8	0.3	1.5	7.9	6.4
Investment aid	3.4	0.5	0.5	5.5	0.0	0.0	4.5	1.7	2.9	1.5	3.2
Other	2.6	0.0	0.9	0.0	0.0	0.0	17.4	0.0	0.4	0.1	6.2
Sectoral Subsidies	81.1	79.8	69.0	77.4	27.6	50.7	46.6	91.6	67.0	68.6	63.1
Agriculture, fishery	4.2	30.3	7.4	17.5	0.4	24.5	7.0	8.7	21.0	12.3	10.5
Steel	10.6	0.8	1.9	9.1	0.0	2.7	5.9	27.2	1.6	7.5	5.8
Shipbuilding	1.5	14.2	0.9	3.0	0.4	0.4	0.9	0.0	3.3	5.1	2.0
Transport	34.7	34.2	31.0	26.4	12.9	12.4	23.4	55.7	31.2	16.1	25.7
Coal mining	27.7	0.0	26.2	13.7	0.0	0.0	0.0	0.0	0.0	21.9	12.7
Other	2.4	0.3	1.5	7.7	13.9	10.6	9.4	0.0	9.9	5.7	6.4
Regional subsidies	4.6	1.3	18.0	2.3	17.3	15.5	21.1	4.9	7.5	14.6	14.3

Source: OECD [var. issues]; own calculations.

ing of the advocates of regionalism concentrates on the only argument that there is a better understanding among neighbour states [Krugman, 1991b, p. 19]. There are neither strong reasons for nor against this argument. Nevertheless, in view of the fact that the removal of these "new" trade barriers is at least as difficult to handle as the reduction of subsidies and that no agreement on the curtailment of US antidumping practices could be reached in the negotiations on the creation of the NAFTA, it cannot be realistically assumed that regional pacts can do what global negotiations cannot.

A more serious argument is that the United States has lost its hegemonic power and, therefore, its ability to act as a "lender of last market" in the international trade system. The proponents of regionalism argue that its dominant position in the early postwar period enabled the United States to offer system-sustaining concessions that limited the free-rider problem of multilateral negotiations. Accounting for a decreasing share in gross world product and having lost its dominance in productivity growth and technological leadership, the United States is no longer in a position to serve as a global trade hegemony. Since the decline of the hegemonic power at a global level plays no role in regional agreements where there is either a local hegemony or a special correlation of forces that makes a global hegemon superfluous, the regionalists advocate the formation of further free trade areas [Krugman, 1991b].

This argument heavily rests on the hegemonic stability theory. It assumes that different distributions of power among states lead to different degrees of stability in the world economy and to different levels of openness in international trade. In its strongest version, it predicts that a hegemonic system, in which power is concentrated in the hands of a single country, will produce the most stable and most open world economy. The hegemonic stability

theory can be regarded as an extension of the theory of public goods. It assumes that the stability and openness of the international economic system is an international public good. Since stability and openness is costly to provide and the gains from promoting stability and free trade cannot be fully internalised by a single country, each country, acting in its own interest, will be prompted to undertake actions undermining stability and openness. Thus, a leader behaving in the collective interest is necessary to underwrite the system. The most cited empirical proof of the validity of the hegemonic stability theory is that it can explain the severity of the Great Depression. According to Kindleberger [1973], only a hegemonic system with a single leader would have been able to halt the downward spiral of the international economy during the interwar period. Yet, Britain was no longer in a position to play this role and the United States was unwilling to act as a lender of last market.

Apart from the fact that there are numerous good reasons to argue that the unwillingness of the Federal Reserve Board to act as a lender of last resort rather than the unwillingness of the US government to play the role of a lender of last market was responsible for the severity of the Great Depression, there are other arguments that call into question the explanatory power of the hegemonic stability theory.

First, from the viewpoint of the hegemonic approach, there are some similarities in terms of economic distress and instability between the years of the Great Depression and the 1970s. In both periods, Western Europe and the United States were faced with the erosion of hegemonic power as well as a severe economic downturn leading to mounting unemployment rates, huge industrial and agricultural overcapacities, and thus to serious instabilities in the world economy. However, as Milner [1986] has shown in detail, the protectionist pressure in the 1970s was considerably weaker than in the 1920s, allowing even sub-

stantial tariff cuts in the Tokyo Round of GATT negotiations. Thus, the failure of hegemonic power alone cannot be responsible for the alleged erosion of the multilateral system of trade negotiations. Second, from a welfare economic standpoint, it is simply wrong to assume that the openness of markets is an international public good, since the gains from a unilateral removal of trade barriers can well be internalised by a single country. One must concede, however, that the real world of trade negotiations is built upon a mercantilist paradigm that does lead to a free-rider problem. But the experience of the interwar period clearly shows that material hegemony is not sufficient to successfully deal with the free-rider problem. The United States was by all means a dominant force in the late 1920s but was unwilling to lead. Thus, it is rather the willingness of a country to take a leading role that gives multilateral trade negotiations a forward momentum. Yet, the willingness of a country to make the first steps towards a new round of multilateral negotiations is not solely a function of the distribution of power in the world, but mainly depends on domestic influences on national trade policy. Hence, to push forward multilateral negotiations, the world does not need a hegemon but a country that is economically strong enough to keep special domestic interests under control and is, therefore, in a position to make the first step to a new round of worldwide negotiations in order to bring all parties to the table, as the United States has successfully done since the Second World War.

Another argument of the regionalists is that the deepening of EC integration is to a large extent responsible for the erosion of the multilateral system of trade negotiations and that additional free trade areas under the leadership of the United States are required to compensate for the resulting terms-of-trade deterioration [Dornbusch, 1990]. Of course, the record of EC trade policy is mixed. On the one hand,

internal liberalisation has gone hand in hand with a reduction of external trade barriers in the Kennedy and Tokyo Rounds. On the other hand, the Common Agriculture Policy (CAP), the preferential arrangements with a huge number of developing countries and with the members of the European Free Trade Association (EFTA), the establishment of the European Economic Space (EES), and the increasing use of antidumping measures are clearly discriminatory. In addition, the diminishing interest of the EC in a new round of multilateral trade negotiations might have been one of the main reasons for the failure of US efforts to launch a new GATT Round in 1982 [Aho, Ostry, 1990]. Although the ostensible reason for the delay was the opposition of a small group of developing countries led by Brazil and India, which opposed the inclusion of the so-called new issues of trade and investment, the launch would likely have been successful if the EC and the United States had been able to agree on timing. The disagreement between the United States and the EC was largely a result of the resistance of most EC members to include agriculture policies in the round-table negotiations. However, given that the deepening of EC integration indeed contributed to the erosion of the multilateral process of trade negotiations, the straightforward conclusion will be to refrain from any further customs unions and free trade areas instead of multiplying the existing problems through the formation of additional trading blocs. There are no reasons to assume that any free trade area under US leadership will be less harmful for outsiders and the multilateral system of trade negotiations than the EC.

The counter argument of the regionalists is that the United States is striving for the formation of "natural" trading blocs [Krugman, 1991a], i.e. free trade areas among partners who would have done much of their trade with one another even in the absence of special trade agreements. The formation of the

NAFTA, which is rather welfare improving than welfare worsening, as almost all analyses of the trade-creating and trade-diverting effects have shown [see Almon, 1990; Adams et al., 1991; Cohen, 1991; Hinojosa-Ojeda, Robinson, 1991; Langhammer, 1992], might be a good example for such a "natural" trade bloc. But it is fairly questionable whether there are additional trade areas led by the United States that could be characterised as "natural". According to the regionalists, the first-best candidates for further regional trade arrangements are the Latin American states. However, in view of the existing trade barriers of the United States, it can be argued that the formation of free trade areas between the United States and its Latin American neighbours may

involve considerable costs for third countries [Bergsten, 1991]. Since tariffs are already very low, the United States would be forced to offer a liberalisation of its seven large import quota regimes. Thus, import barriers for Latin American states in textiles and apparel, steel, automobiles, machine tools, dairy products, sugar, and meat would likely be reduced after the formation of a free trade area. It is obvious that, with the exception of sugar and probably meat, the most efficient suppliers of these products can be found outside of Latin America. Hence, regional trade arrangements between the United States and its southern neighbours would almost certainly generate much more trade with relatively uncompetitive producers than with efficient suppliers.

III. Pros and Cons of Aggressive Bilateralism

A further move away from multilateralism was recently made by Dornbusch [1990] who not only proposes the formation of additional free trade areas under US leadership but also advocates a trade policy of aggressive bilateralism. In his opinion, the trade problems of the United States are mainly a result of formal and informal barriers to US exports in several foreign countries, especially Japan, leading to a downward pressure on the dollar and a decrease in real wages and living standards in the United States. As a strategy to open the markets of those countries that are practising "unfair" trade policies, which result in an unreasonably low import-penetration ratio, he proposes the setting of numerical targets for US imports, using sanctions such as provided in the Super 301 Law as a threat to induce an offending country to meet the targets. According to this approach, the Japanese problem should be tackled by forcing Japanese firms to increase their manufactures imports from the

United States at an average real rate of 15 per cent a year during the next decade [Dornbusch, 1990, p. 124].

However, apart from the arguments against the formation of free trade areas that, to a large extent, can also be raised against a policy of aggressive bilateralism, there are a number of additional reasons to argue that the world, including the United States, will rather be worse than better off after a change in policies. First of all, in order to exert pressure on Japan and other countries to increase their import share, the United States might be forced to temporarily levy tariffs on foreign goods, as it has recently done with a view to European subsidies in the steel industry. In a world where most governments are pursuing a mercantilist strategy in international trade policy and where interest groups are seeking rents behind high trade walls, a policy of aggressive bilateralism rather encourages offended nations to adopt beggar-thy-neighbour policies of their own in-

stead of removing existing trade barriers. Thus, all participants will be left worse off at the end of the day. Even if a country being faced with an aggressive trade policy of a trading partner were prepared to raise its import share, a strategy of aggressive bilateralism would not necessarily lead to an improvement of world welfare. Given, for example, that the United States were successful in improving its terms of trade with Japan due to a policy of aggressive bilateralism, Japanese firms would likely reduce their imports from European and other countries and thus would give rise to another spiral of retaliation.

Moreover, it is by all means unrealistic to assume that a policy assuring fixed export amounts for domestic producers can temporarily be put into effect and thereafter dismantled in favour of a liberal trade policy once the desired reforms by foreign countries are achieved [Baldwin, 1990, p. 200]. The experiences of the interwar period clearly elucidate that once interventionist policies are introduced they gain momentum and are thus very difficult to reverse. As a reaction to the Hawley-Smoot tariff of the United States, many countries were eager to enter discriminatory bilateral trade arrangements, which induced a downward spiral of international trade. What is more, the move towards aggressive measures of retaliation undermined the predictability of trade policies, since concessions made in one bilateral negotiation often ran counter to concessions offered to another trading partner in a preceding agreement. In view of the vast number of mutual agreements, this led to a nearly endless process of negotiations and renegotiations and, therefore, destroyed the confidence in trade commitments at all.

Another serious problem of a results-oriented trade policy is that it opens broad space for specific economic interest groups to exert influence on both the choice of goals of results-oriented measures and the determination of countries to be accused of practising

“unfair” trade policies. The current discussion in the United States clearly shows that the various proponents of a results-oriented trade policy are pursuing different goals. The proposed list of objectives includes improving the US terms of trade, increasing US domestic production and production of US-owned multinational enterprises, improving the US defence industrial base, obtaining spillovers for the US economy, maintaining the technological capacity of US-owned firms, avoiding “unfair” trade practices and saving jobs in the United States [Lawrence, Schultze, 1990]. Because their goals differ, there is no agreement among the advocates of a results-oriented trade policy on the countries that should be subject to measures of aggressive bilateralism. Some would confine measures to Japan, others would also include other Asian countries such as Korea, whose economic systems are regarded as operating by rules different from those of the United States [see, e.g., Choate, Linger, 1986], and many would prefer the extension of this approach to the members of the EC. Some proponents of a results-oriented trade policy even advocate global sectorally quantitative arrangements like the Multifibre Arrangement [see, e.g., Kuttner, 1989] and Prestowitz [1988] goes so far as to propose that international trade generally should be managed like the IAATA, the international airline cartel.

It is obvious that, without a precise definition of “unfair” trading practices, the rules of a results-oriented trade policy will be determined by powerful economic interest groups. However, the definition of “unfairness” is always a matter of subjective perception, as the Japanese example shows. There is a long-standing and ongoing debate on whether Japan is an outlier in terms of international trade policy [see, e.g., Balassa, 1986; Saxonhouse, 1983; Lawrence, 1991b; Kreinin, 1988; Lincoln, 1990]. While it is widely agreed that measurable tariff and nontariff trade barriers

are relatively low in Japan, Japanese consumers and firms are often accused of discriminating foreign suppliers by following a buy-Japanese attitude. The crucial question is then whether the alleged buy-Japan attitude is a reflection of a certain taste or rather the outcome of a government and business policy that discriminates foreign firms. If Japanese consumers are willing to forgo cheaper foreign goods, there are no reasons for aggressive counter-measures, since one cannot argue with tastes. Some observers of the Japanese economy, however, argue that the rather weak antitrust law in Japan that allows for a high concentration of Japanese enterprises and the resulting cartel behaviour of domestic firms are mainly responsible for Japanese distribution channels being closed and thus for the small import-penetration ratio of Japan. But evidence for this statement that is sufficient to justify a policy of aggressive bilateralism against Japan is still missing.

Even in the case that the Japanese markets are indeed relatively closed due to the erection of informal trade barriers, it can be reasonably doubted that a strategy of aggressive bilateralism will lead to a more liberal trade policy in Japan. Given that a results-oriented approach does not encourage the Japanese government to retaliate and thus raises the volume of Japanese imports, it might lead to more, rather than less, government and corporate control over domestic markets [Lawrence, Schultze, 1990, p. 28]. In order to enforce certain input targets, a powerful Ministry of Trade and Industry

(MITI) is needed to organise and monitor buying cartels in all industries of the economy. Moreover, the economic power of the famous Keiretsu would certainly increase, since they would be responsible for the distribution of general import targets to individual industries and enterprises. Instead of creating a market that is open in the most fundamental sense, i.e. a market that can be contested by new firms, both foreign and domestic, measures of aggressive bilateralism would enforce Japan to adopt precisely that kind of economic policy that is seen with suspicion by the advocates of a results-oriented trade strategy.

Finally, a results-oriented approach would endanger the success of the rules-oriented strategy of negotiations with Japan preferred by the US government during the last decade. Particularly rapid growth in US exports to Japan has occurred in those sectors where negotiations to change the rules have been concluded. The negotiations under the Market-Opening Sector-Specific (MOSS) talks in the mid-1980s have resulted in an impressive increase in Japanese imports in the four sectors that were singled out for negotiations [Lawrence, 1990]. US exports to Japan in the four product categories combined swell by 46.5 per cent, an increase well above the 24.8 per cent rise in total US exports to Japan during the same period. It can be realistically assumed that these commitments will be used by the Japanese government as a weapon to retaliate if the US shifts to an aggressive trade policy.

IV. Free-Riders, Foot-Draggers, and the Conditional Most-Favoured-Nation Principle

The preceding analysis clearly shows that any departure from multilateralism is rather a dirt road than a highway to freer trade and, in the

worst case, could even lead into a dead end. However, two serious problems of multilateral trade talks within the GATT are apparent:

First, it is increasingly difficult to bring all parties to the negotiation table. One of the reasons for the success story of the GATT after World War II has been the willingness of the United States to make the first step towards a new round of concessions and thus to offer strong incentives for other countries to participate in worldwide negotiations. The first six GATT Rounds mainly aimed at cutting tariffs on an unconditional MFN basis. This approach worked well as long as the great bulk of trade was conducted among the United States, Canada, Western Europe, and Japan and the main trading partners of the United States had a lively interest to participate in the negotiations by offering own substantial concessions to the bargain in order to gain from a potential opening of US markets. However, in the 1980s the tendency to act as a free-rider in multilateral negotiations has grown substantially [Hufbauer, Schott, 1985]. In view of the increasing inability and unwillingness of the United States to prevail upon the growing demand of domestic interest groups for protection against competitors abroad, this problem might become even more important in the future. Although a single free-rider does not impose much of a burden on the multilateral trade system, the growing number of nonactive participants in the GATT Rounds creates a significant leakage when benefits are extended on an unconditional MFN basis [Hufbauer, Schott, 1985, p. 20]. As a consequence, major exporters such as the United States increasingly refrain from multilateral commitments in favour of bilateral and plurilateral agreements. Of course, from a purely welfare economic standpoint, there does not exist a free-rider problem in international trade negotiations, since the gains from trade liberalisation can well be internalised by a single country. However, for actual commercial policy it is rather unimportant what economists know, but very important what the responsible actors think. Almost all observers of multilateral trade ne-

gotiations agree that the leading actors in the GATT game are following a mercantilist paradigm [see, e.g., Snape, 1988; Hagelstam, 1991; Krugman, 1992]. Thus, economists are faced with the task to think about efficient rules for this second-best game.

Second, there is no efficient mechanism in the GATT system forcing countries that are retarding a further development of multilateral trade negotiations or that are not playing according to the rules of the GATT game to join the liberalisation club. If these countries are important exporters so that no agreement can be reached without their participation in multilateral negotiations, they are in a position to act as "foot draggers" in the liberalisation process. It would certainly be difficult, for example, for the United States and the leading less developed countries to sign an agreement about major liberalisation efforts in textiles and clothing without the active presence of Europe at the negotiation table.

Both problems could be solved within the GATT by partially turning from the unconditional MFN principle to plurilateral negotiations on a conditional MFN basis. It is important, however, that these agreements offer open access on a conditional basis. That means that country A extends to C all concessions granted by treaty to B, if C matches the concessions made by B to A.³

The conditional MFN principle has been criticised for imposing a considerable risk on producers in the signatory countries. It has been argued that the output response of producers to a trade liberalisation on basis of a conditional MFN principle is likely to be weaker and thus the welfare gains are likely to be smaller than under the unconditional MFN principle [Baldwin, 1990]. Under the conditional MFN principle, producers in a signatory

³ See for similar proposals along this line Hufbauer, Schott [1985]; Baldwin [1990]; Bhagwati [1991]; Lawrence [1991a]; Nunnenkamp [1993].

country face the risk that, after expanding their capacity in order to contest the formerly closed markets, they will realise sunk costs when other countries with lower production costs sign the agreement later. As a result, producers in countries that are among the initial signatories to such agreements are likely to refrain from increasing their capacities and might even lobby against the admission of new club members [Baldwin, 1990, p. 204]. Moreover, initial signatories may push for a renegotiation of the agreement when additional countries enter the liberalisation club, since the concessions may run out of balance due to the extension of the commitments to third parties.

Whether this risk-averse behaviour of enterprises plays an important role when worldwide negotiations are based on the conditional MFN principle, is an empirical question. From a theoretical viewpoint, a partial shift from unconditional to conditional MFN agreements is, compared with the establishment of further closed trading areas or a policy of aggressive bilateralism, a preferable solution to the existing problems of the GATT process of trade

liberalisation, since it does not block the way towards a multilateral liberalisation of world trade. Given that countries are not ready to enter into agreements on basis of a conditional MFN principle, since these agreements increase the investors' risk and do not allow for a sufficient internalisation of the resulting gains from trade liberalisation, it will be necessary to further restrict the access of third parties to the liberalisation club. One could think about commitments that are similar to national and international patent systems, i.e. agreements that allow third countries to join the club only after an intermediate period of six or eight years. Of course, for a transition period, agreements of this kind would run counter to the principles of the GATT process of international trade liberalisation. However, if the actors in international trade policy are indeed pursuing a neomercantilist strategy, such a second-best solution will be the only way that brings all potentially interested parties to the negotiation table in the short run and simultaneously allows for a multilateral liberalisation of world trade in the long run.

Bibliography

- ADAMS, F. Gerard, Mario ALANIS, Abel BELTRAN DEL RIO, *The Mexico–United States Free Trade and Investment Area Proposal. A Macro-Economic Evaluation of Impact on Mexico.* University of Pennsylvania, CIEMEX/WEFA, Philadelphia, Pa., January 1991.
- AHO, C. Michael, Sylvia OSTRY, “Regional Trading Blocs: Pragmatic or Problematic Policy?”. In: William E. BROCK, Robert D. HORMATS (Eds.), *The Global Economy.* New York 1990, pp. 147–173.
- ALMON, Clopper, *Individual Effects of a Free Trade Agreement between Mexico and the USA.* US Department of Labor, Inforum Report, College Park, Md., 15 September 1990.
- BALASSA, Bela, “Japan’s Trade Policy”. *Weltwirtschaftliches Archiv*, Vol. 122, 1986, pp. 745–790.
- BALDWIN, Robert, “Commentary”. In: Robert Z. LAWRENCE, Charles L. SCHULTZE (Eds.), *An American Trade Strategy: Options for the 1990s.* Washington 1990, pp. 195–207.
- BERGSTEN, C. Fred, “Commentary: The Move Toward Free Trade Zones”. *Federal Reserve Bank of Kansas City, Economic Review*, Vol. 76, 1991, No. 6, pp. 27–35.
- BHAGWATI, Jagdish N., “Departures from Multilateralism: Regionalism and Aggressive Unilateralism”. *The Economic Journal*, Vol. 100, 1990, pp. 1304–1317.
- , *The World Trading System at Risk.* New York 1991.
- , “Regionalism versus Multilateralism”. *The World Economy*, Vol. 15, 1992, pp. 535–555.
- CHOATE, Pat, J. K. LINGER, *The High-Flex Society: Shaping America’s Economic Future.* New York 1986.
- COHEN, Robert, *The Good News or the Bad News. Free Trade with Mexico: The Potential Economic Impact.* Economic Strategy Institute, Washington, May 1991.
- CURZON, Victoria, *Multilateral Commercial Diplomacy.* London 1965.
- DORNBUSCH, Rudiger W., “Policy Options for Freer Trade: The Case for Bilateralism”. In: Robert Z. LAWRENCE, Charles L. SCHULTZE (Eds.), *An American Trade Strategy: Options for the 1990s.* Washington 1990, pp. 106–141.
- , Paul R. KRUGMAN, Yung C. PARK, *Meeting World Challenges: U.S. Manufacturing in the 1990s.* Eastman Kodak Publication, Rochester, N.Y., 1989.
- FINGER, J. Michael. “Trade Liberalisation: A Public Choice Perspective”. In: Robert C. AMACHER, Gottfried HABERLER, Todd D. WILLET (Eds.), *Challenges to a Liberal International Economic Order.* Washington 1979, pp. 421–461.

- GASIOREK, Michael, Alasdair SMITH, Anthony J. VENABLES, 1992: Trade and Welfare: A General Equilibrium Model. Centre for Economic Policy Research, Discussion Paper Series, No. 672, London 1992.
- HAGELSTAM, Jarl, "Mercantilism Still Influences Practical Trade Policy at the End of the Twentieth Century". *Journal of World Trade*, Vol. 25, 1991, pp. 95–105.
- HINOJOSA-OJEDA, Raul, Sherman ROBINSON, Alternative Scenarios of U.S.–Mexico Integration: A Computable General Equilibrium Approach. University of California, Department of Agricultural and Resource Economics, Working Paper No. 609, Berkeley, Calif., April 1991.
- HUFBAUER, Gary C., Jeffrey J. SCHOTT, Trading for Growth: The Next Round of Trade Negotiations. Institute for International Economics, Washington 1985.
- KEMP, Murray C., Henry Y. WAN, "An Elementary Proposition Concerning the Formation of Customs Unions". *International Economic Review*, Vol. 6, 1976, pp. 95–97.
- KINDLEBERGER, Charles, The World in Depression, 1929–1939. Berkeley, Calif., 1973.
- KREININ, Mordechai E., "How Closed Is Japan's Market? Additional Evidence". *The World Economy*, Vol. 11, 1988, pp. 529–542.
- KRUGMAN, Paul R. [1991a], "Is Bilateralism Bad?". In: Elhanan HELPMAN, Assaf RAZIN (Eds.), *International Trade and Trade Policy*. Cambridge, Mass., 1991, pp. 9–23.
- [1991b], "The Move Toward Free Trade Zones". Federal Reserve Bank of Kansas City, *Economic Review*, Vol. 76, 1991, No. 6, pp. 5–25.
- , "Does the New Trade Theory Require a New Trade Policy?". *The World Economy*, Vol. 15, 1992, pp. 423–441.
- KUTTNER, Robert, Managed Trade and Economic Sovereignty. Washington 1989.
- LANGHAMMER, Rolf J., The NAFTA: Another Futile Trade Area (AFTA) or a Serious Approach Towards Regionalism? Institut für Weltwirtschaft, Kiel Discussion Papers, No. 195, Kiel 1992.
- LAWRENCE, Robert Z., "Discussion". In: Robert Z. LAWRENCE, Charles L. SCHULTZE (Eds.), *An American Trade Strategy: Options for the 1990s*. Washington 1990, pp. 134–138.
- [1991a], "Emerging Regional Arrangements: Building Blocks or Stumbling Blocks?". In: Richard O'BRIEN (Ed.), *Finance and the International Economy*. Oxford 1991, pp. 22–35.
- [1991b], "How Open Is Japan?". *Tokyo Club Papers*, Vol. 4, 1991, No. 2, pp. 11–38.
- , Charles L. SCHULTZE, "Evaluating the Options". In: Robert Z. LAWRENCE, Charles L. SCHULTZE (Eds.), *An American Trade Strategy: Options for the 1990s*. Washington 1990, pp. 1–41.
- LINCOLN, Edward J., Japan's Unequal Trade. Washington 1990.
- LIPSEY, Richard G., "The Theory of Customs Unions: A General Survey". *The Economic Journal*, Vol. 70, 1960, pp. 496–513.

- MILNER, Helen V., *Resisting the Protectionist Temptation: Industrial Politics and Trade Policy in France and the United States in the 1920s and 1970s*. Dissertation, Harvard University, Cambridge, Mass., May 1986.
- NUNNENKAMP, Peter, *The World Trading System at the Crossroads. Multilateral Trade Negotiations in the Era of Regionalism*. Institut für Weltwirtschaft, Kiel Discussion Papers, No. 204, Kiel 1993.
- ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD), *National Accounts Statistics*, Vol. II. Paris, various issues.
- PRESTOWITZ, Clyde V., *Trading Places: How We Allowed Japan to Take the Lead*. New York 1988.
- SAXONHOUSE, Gary R., "What Is All This about 'Industrial Targeting' in Japan?". *The World Economy*, Vol. 6, 1983, pp. 253–274.
- SNAPE, Richard H., "Is Non-Discrimination Really Dead?". *The World Economy*, Vol. 11, 1988, pp. 1–19.
- THUROW, Lester, "Trading Blocs Will Not Harm the World Trading System". In: William DUDLEY (Ed.), *Trade: Opposing Viewpoints*. San Diego, Calif., 1991, pp. 230–236.
- VINER, Jacob, *The Customs Union Issue*. New York 1950.
- WINTERS, L. Alan, "The Road to Uruguay". *The Economic Journal*, Vol. 100, 1990, pp. 1288–1303.