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Regimes: The Case of the Tokyo Round**

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The Influence of Liberal Ideas on the GATT Regimes: The Case of the Tokyo Round

Hidetaka Yoshimatsu

Abstract

The Tokyo Round was the first attempt to set up new ways to deal with many changes in the trade regime since the end of the war. The most crucial issue in the negotiation was to preserve the liberal ideals embodied in the GATT system against protectionist pressure. Some exponents argue that the Tokyo Round changed the international trading system into a fragmented unstable order. However, the Round not only succeeded in contributing to make the trading system more open and fair by constraining the economic sovereignty of states, but it also became a crucial bulwark against protectionist action. The prevailing approach to explaining the outcome of the Tokyo Round is the hegemonic stability thesis. According to the thesis, the outcome of the Round should have been undesirable to trade liberalisation. In reality, however, the results were cooperative and constructive. The decisive reason accounting for the liberal results is that major trading nations shared liberal values. The orientation toward liberal values is supported by the experience of the interwar period and the empirical fact that high trade performance has promoted economic growth. In addition, growing economic interdependence through intra-industry trade and intra-firm trade has created new trade preference.

1. Introduction

The Tokyo Round of trade negotiation was the first attempt to set up new ways to deal with many changes in the trade regime since the end of the Second World War. The most crucial issue in the negotiation was to preserve the liberal ideals embodied in the General Agreement on Tariffs and Trade (GATT) system against protectionist pressure. The GATT system is based on two ideas of consensus derived from liberal ideals. One is economic consensus that open trade would allow members to specialise according to their comparative advantage and to achieve higher aggregate levels of growth and well-being. The other is political consensus that a liberal trading regime would promote prosperity and peace.¹ Four principles that embody these ideals are embedded in the GATT system. First, non-discrimination which leads to the application of most favoured nation (MFN) treatment to all signatories; second, unconditional reciprocity among all signatories²; third, expansion of trade through the reduction of trade barriers; and fourth, the maintenance of an international trading order. These principles were based on the idea of the American post-war planners who were engaged in the establishment of the GATT system.³ They evolved a belief from the experience of the 1930s that the reconstruction of a liberal world economy needed widespread government intervention.

¹ Joan Edelman, Spero, *The Politics of International Economic Relations*, p.70

² The term 'unconditional' means that concessions made to one member of the GATT are automatically available to all other members. 'Conditional' means that concessions are made to a member in exchange for a given concession. The terms are used with regard to reciprocity and MFN treatment.

³ Richard, Gardner, *Sterling-Dollar Diplomacy*, chapter 1

The GATT system employs several means to secure these principles. For the reduction of trade barriers, the contracting parties might sponsor multilateral negotiation 'from time to time'. The various commitments contained in the thirty-eight articles of the General Agreement are prepared in order to achieve other three principles. Multilateral trade negotiations (MTN) have been held seven times including the Tokyo Round, and they have achieved drastic tariff reductions among industrialised nations. Especially in the Kennedy Round (1963-67), tariffs on industrial products were reduced, on average, by over 35 percent, and more than \$40 billion of trade was subject to some form of concession by participating countries.⁴

In the post-war period, international trade has been a dynamic source of economic growth. From 1950 to 1975, the merchandise trade of industrial countries grew at an average rate of 8 percent annually, producing high growth rates, averaging over 4 percent.⁵ The liberal ideals embedded in the GATT regime supported this performance. During the 1970s, however, economic circumstances changed into opposing the fulfilment of these liberal ideals. Economic turbulence caused by the oil crisis, the breakdown of the Bretton Woods system, and American hegemonic decline provoked 'new protectionism'. This economic instability threatened the openness of the international trading system, and presented industrial countries with difficult economic problems which, in the past, had often resulted in widespread protectionism.⁶ The Tokyo Round was convened in these difficult circumstances.

The Tokyo Round started at a ministerial trade conference in September 1973 in Tokyo, and concluded in Geneva in April 1979. The most important characteristic of the Round was that it dealt with issues beyond conventional trade question of tariffs. The Round was a challenge to the economic sovereignty of states, because, for the first time, it succeeded in imposing international norms on many non-tariff barriers (NTBs) which constitute an integral part of national economic and social policies, and are regarded as national prerogatives not subject to international negotiations.⁷

The agreements concluded at the Tokyo Round are generally regarded as the most comprehensive and far-reaching results achieved in MTN since the creation of the GATT.⁸ They included tariff reductions, revisions of the GATT articles of agreement, several codes covering NTBs, and a sectoral agreement for trade in civil aircraft. Reviewing these results, however, not all of them necessarily confirm the liberal ideals. The tariff reductions and the agreement for trade in civil aircraft, the codes on customs valuation, import licensing, and technical standards for products contribute to a more open, market-oriented regime. These measures increase trade on a non-discriminatory basis and reduce state intervention. By contrast, some codes dealing with NTBs, as well as special and differential treatment for less-developed countries (LDCs), endorse limited discriminatory treatment. Critical issues related to agriculture and safeguards made little or no progress. However, the negotiation not only became a crucial bulwark against protectionist action, but it also gave the momentum for more liberalisation

⁴ Ernest H, Preeg, *Trade and Diplomats: An Analysis of the Kennedy Round of Negotiations under the General Agreement on Tariffs and Trade*, p.12

⁵ William R, Cline, 'Introduction and Summary', in William R, Cline, ed., *Trade Policy in the 1980s*, p.5

⁶ Helen, Milner, 'Resisting the Protectionist Temptation: Industry and the Making of Trade Policy in France and the United States during the 1970', *International Organization* 41 (1987) p.639

⁷ Spero, op.cit., p.86

⁸ Gilbert, Winham, *International Trade and the Tokyo Round Negotiation*, p.16

with the success in NTB regulations. The Tokyo Round had a significant meaning in confirming the will of major trading nations to maintain a liberal and open trade regime.

There are several theoretical approaches to explaining the outcome of the Tokyo Round. The prevailing explanation is the hegemonic stability thesis that assumes that a liberal order cannot be created and maintained without the support of a hegemon in the system. According to the thesis, the liberal trade regime should have been eroded in the 1970s because of the decline of American hegemonic power. The outcome of the Round also should have been undesirable to trade liberalisation. In reality, however, the trade regime did not wane, shown by the rapid growth in world trade volume, the continuing tariff cuts during 1960s and 1970s, and the expansion of the negotiating agenda at the Rounds. The results of the Tokyo Round were regarded as cooperative and constructive by its major participants.

The decisive reason accounting for the liberal results is that major trading nations shared liberal values. These nations regard free and open trade as contributing to their own national interests, and seek to maintain the market-oriented trade system under the GATT auspices. The orientation toward liberal values stemmed from several factors. Fear of the protectionism of the inter-war period motivated governments to produce cooperative results of the negotiation. The liberal trend was also supported by the empirical fact that high trade performance has promoted economic growth throughout the world. In addition, growing economic interdependence has created new trade preference among leading trading nations. Trade liberalisation in the post-war years has created similar demand structure in industrialised countries. The rapid growth of intra-industry trade, caused by the creation, and trade liberalisation are mutually reinforcing. Trade liberalisation tends to stimulate intra-industry trade, while dynamic industries involved in intra-industry trade are in favour of freer trade. Furthermore, the surge of intra-firm trade, which is produced by enormous foreign direct investment, has created a bias toward open trade. This is because multinational corporations (MNCs) engaged in such trade regard protection as imposing an additional cost on their operations. The preferences of these internationally oriented industries and firms for liberal trade have had an imperative impact on the structure of domestic trade policymaking.

This paper first sketches the background of the Tokyo Round. It then outlines the results of the Round and analyses its problems. After that, it examines whether the results reflect the liberal ideals, and seeks the reasons why such results are produced.

2. Background of the Tokyo Round

It is necessary to understand the background of the Tokyo Round in order to assess the results correctly. Several crucial changes occurred in the international trading system during 1970s. In the first place, economic turbulence emerged throughout the world in several forms. A massive increase in the oil price by the Organisation of Petroleum Exporting Countries (OPEC) had a critical influence on the world economy. It not only put a break on the long post-war expansion of world economy, but also forced many developing countries to go into debt to finance energy imports. The abrupt termination of the Bretton Woods monetary system led to a shift to floating exchange rate. This change means the loss of international monetary norm, and made the international monetary system unstable. Furthermore, economic stagnation spread all over the world. Unemployment at the level not seen since the end of the war, was accompanied by an increase in inflation. This combination was 'both intellectually puzzling and

psychologically troublesome'.⁹

In the second place, American hegemonic power waned rapidly. The United States was in a paramount position of leadership in the first two decades of the post-war period. In terms of the gross national product (GNP) at the end of the Second World War, the United States was three times larger than the second runner, the Soviet Union was. The United States used its power most forcefully to attain security goals rather than specific economic interests. To make Europe and Japan less vulnerable to internal communist threats and external pressure from the Soviet Union, the United States promoted economic reconstruction in these areas. Yet by the time the Tokyo Round began, U.S. ascendancy had waned. In manufacturing exports, for example, West Germany surpassed the United States around 1970, as did Japan eight years later.¹⁰ In addition, after 1970, the United States began to suffer chronic merchandise trade deficits. The decline of economic power and the increasing trade deficits led the United States to give up bearing the disproportionate costs of hegemonic leadership.

In the third place, there occurred structural change in the world trading system. Japanese competition intensified in world markets and the highly competitive newly industrialising countries (NICs) followed. The export surge of manufactured products generated by combining state of the art production techniques with traditional low wage labour costs led most advanced industrial countries to protectionism to safeguard their economies and welfare.

All these events contributed to the emergence of stronger pressure for protectionism than at any time since the Second World War. Many countries set up protectionist policies to reserve their economic position. Because of the GATT obligations 'binding' lower tariffs produced by successive Rounds of GATT negotiation, new protectionism has taken other forms. Governmental involvement in the conduct of industry increased rapidly through export subsidies, credit guarantees, and tax incentives to particular sectors. In addition, voluntary export restraints (VERs) on supplier countries and orderly marketing agreements (OMAs) were developed as a response to protective pressure from import-sensitive sectors. Restrictions on textile import from LDCs, originally limited to cotton textiles, were extended to woollen and manmade fabrics in the Multi-Fibre Agreement of 1974.¹¹ The VERs became an accepted means of trade regulation and proliferated in various sectors such as textiles, steel, automobiles, electronics, and footwear.

3. Results of the Tokyo Round

The results of the Tokyo Round consisted of four parts: a series of tariff reductions; 6 codes dealing with non-tariff measures; revisions of GATT articles; and a sectoral agreement for trade in civil aircraft.

In the first part, average reductions of about 35 percent of the industrial countries' tariffs were achieved, and the reduction covered more than \$100 billion of imports. The major trading countries agreed to take the across-the-board approach adopted in the Kennedy Round rather than the item-by-item approach.

⁹ Sidney, Golt, *The GATT Negotiations 1973-79*, p.4

¹⁰ Charles, Lipson, 'The Transformation of Trade: The Sources and Effects of Regimes Change', *International Organization* 36 (1982) p.438

¹¹ Cline, William R. *The Future of World Trade in Textiles and Apparel*.

In the second part, 6 codes dealing with non-tariff measures were enacted. First, the code on subsidies and countervailing measures is a step toward dealing with national industrial policies. The code recognises subsidies on manufactured products (but not raw materials) as NTBs to trade. The code operates through two enforcement mechanisms, Track 1 and Track 2. Under Track 1, a country can impose countervailing duties against subsidised products unilaterally, but only if a domestic industry is injured. Track 2 allows a country to retaliate against subsidy practices that are affecting not only its import-competing industries but also its industries that export to the subsidising country or to third markets. The retaliation must be authorised by the signatories of the code. The problem is that much of the wording is ambiguous. Moreover, the code is an erosion of unconditional MFN treatment, given that non-signatories of the code are not covered by its provisions.

Second, the government procurement code recognises government purchasing policies as NTBs, and set rules for giving equal treatment to both national and foreign firms bidding for contracts from official entities. The code lays down a set of procedures by assuring transparency, making information readily available. It includes measures such as publication of rules for bidding, adequate time to prepare bids, and publicity about winning bids. There are two problems with this code. The code does not affect most procurement. It is reported that 85 percent of the U.S. government purchases are not covered by the code.¹² In addition, the code results in a break with unconditional MFN treatment. Its provisions do not apply to non-signatories or to signatories that have not arrived at a mutual bilateral arrangement.

Third, the customs valuation code established a uniform method for valuing imports. The new agreement proposed five valuation techniques. Under primary method, states would base customs value on the transaction value of the imported merchandise as expressed by its invoice price. If this method is impossible, states employ four secondary methods.

Fourth, the code on technical standards for products prohibits the use of health and safety as barriers to trade. The code spells out procedures for enacting standards, such as using international criteria, making certification procedures readily accessible, and allowing reasonable time before standards take effect.

Fifth, the import licensing code prohibits the use of legitimate domestic procedures for trade restrictive purposes, especially for quotas. While many countries maintain licensing procedures for statistical and surveillance purposes, they often create barriers to trade beyond the restrictions to be designed. Signatories are committed to simple, efficient, and neutral administration of licensing procedure, by publicising regulations, designating a single licensing authority, simplifying application forms, and avoiding long delays in granting licenses. The code makes licensing procedures fair and open by eliminating the abuses of the secret quota and ensuring the right to appeal.

Last, the anti-dumping code established comparable rules for anti-dumping measures. The original anti-dumping code, which had been negotiated at the Kennedy Round, was not accepted by the United States owing to the unwillingness of Congress to subscribe to the internationally negotiated procedure for determining injury.¹³ In the

¹² Stephen D. Krasner, 'The Tokyo Round: Particularistic Interests and Prospects for Stability in the Global Trading System', *International Studies Quarterly* 23 (1979) p.514

¹³ Winham, op.cit., p.221

Tokyo Round, the existing anti-dumping code was revised to be consistent with the code on subsidies and countervailing measures. The revised code includes a series of objective criteria which have to be examined by domestic authorities in order to reach a determination of injury.

In the third part, some revisions of the GATT articles were made. They came in five parts, and covered subjects such as safeguard actions for development purposes, trade measures taken to correct payment deficits, export controls, deviations from MFN procedures for developing countries, and the understanding regarding notification, consultation, dispute settlement, and surveillance.¹⁴

In the final part, a sectoral agreement for trade in civil aircraft is reached. The agreement provides for the elimination of all duties, the termination of 'unreasonable pressure' by governments on entities purchasing civil aircraft, and the pricing of aircraft based on the expectation of recouping all costs.

Four major problems are generally recognised with respect to the results. The first problem was that the Tokyo Round failed to revise the safeguards clause. Safeguards are actions taken by a state to protect domestic industries from injury resulting from imports. Article XIX allows the contracting parties to take such actions in cases of 'serious injury'. Yet it requires that several conditions are met: damage has to be demonstrated; affected exporting countries have to be consulted and compensated; restrictions have to accord to the principle of non-discrimination. Countries have rarely resorted to Article XIX because of these conditions. Instead, they impose quantitative import restrictions, VERs, and OMA, outside the GATT provisions. As a result, the reform of article XIX was one of the most crucial reform items, but there was no agreement.

The proposed code would have specified procedures for determining injury and obliged countries to designate a responsible public authority to hold public hearings and make a final statement of its findings. VERs and other measures would have been outlawed if the procedures of the code had not been followed.¹⁵ A serious issue concerned with safeguards was whether emergency protection should be applied on a selective (discriminatory) basis, which is only against the countries considered to be the cause of market disruption, or on a non-discriminatory basis as actually required under the GATT rules.¹⁶ The EEC wanted the right of selectivity to apply restrictions to the exports of Japan and the NICs. Japan and NICs strongly opposed the modification. In the end, although the concept of selectivity was accepted, negotiations broke down over the degree of surveillance of selective safeguards, and no code was adopted.

The second problem was that the Round produced only very modest results in agriculture. In the 1950s, agricultural commodities were given a special status which in effect put them outside the process of trade liberalisation. The six previous GATT Rounds made little or no impact on the rising trend of protection produced by high-cost farmers in industrialised countries against the competition of low-cost producers in agricultural exporting countries. In the Round, a serious attempt would have to be made to open trade in agricultural commodities. In reality, however, the each nation's claim was extremely different. The United States, because of its competitive advantage,

¹⁴ Ibid., p.18

¹⁵ Krasner, op.cit., p.522

¹⁶ Hugh, Corbet, 'Tokyo Round: Twilight of a Liberal Era or a New Dawn?', *National Westminster Bank Quarterly Review* (February, 1979) p.27

advocated liberalisation of the agricultural trade, including the modification of the EEC's Common Agricultural Policy (CAP). Japan, where agricultural groups were substantial parts of the ruling Liberal Democratic Party's constituency, was unwilling to liberalise agricultural trade. The EEC urged the use of commodity agreements to stabilise world prices and long-term supply, and refused to negotiate on the fundamental points of the CAP, which is the EEC's most important common policy.¹⁷ The meagre results of the negotiations were divided into three categories: tariff cuts and quota increases, commodity agreements for trade in meat and dairy products, and new rules related to subsidies. All of these met with little success, the impact on trade was small, and there was no basic alteration of the restrictions imposed on the international movement of farm products.

The third problem was that the Tokyo Round made only limited progress with respect to the revision of the dispute settlement mechanism. One weakness of the GATT regime was the absence of an effective complaint and arbitration procedure. This has meant that small countries have come to believe that they have little prospect of securing satisfaction in trade disputes, especially with any of the major trading powers.¹⁸ The Tokyo Round negotiation attempted to revive reliable dispute settlement procedures. The agreements on NTBs codes contain two central mechanisms, standing committees, which are associated with each code, and panels, which are assembled for individual cases. However, the procedures cannot overcome shortcomings such as the long delay of the proceedings. Furthermore, since these procedures overlap with the existing dispute settlement procedures of the GATT, the code procedures have not been heavily used.¹⁹

The final problem with the Round's result was that the principle of non-discrimination, a cornerstone of the GATT regime, was violated in some areas. NTB codes resulted in a break with unconditional MFN treatment. For example, the code of government procurement does not apply to non-signatories or to signatories that have not arrived at a mutual bilateral arrangement. This may lead not only to a departure from MFN treatment between signatories and non-signatories, but also to departures among signatories.²⁰ Furthermore, special and differential treatments for LDCs were admitted in both the revisions of GATT articles and in the various codes relating to NTBs. The agreements gave permanent legal authorisation for the Generalised System of Preferences (GSP), and intra-LDCs preferences.²¹ All NTBs codes made special provisions for LDCs. For instance, LDCs are permitted under the government procurement code to rely on domestic purchases when they are necessary to protect infant industries and balance-of-payment positions.²²

4. Theoretical explanation of the results

How should the outcome of the Tokyo Round be assessed from the viewpoint of liberal ideals? Some exponents argue that the Tokyo Round changed the international trading system into a fragmented unstable order.²³ Yet the Round produced on balance a

¹⁷ Spero, *op.cit.*, p.93

¹⁸ Corbet, *op.cit.*, p.28

¹⁹ Winham, *op.cit.*, p.357

²⁰ Krasner, *op.cit.*, p.515

²¹ Spero, *op.cit.*, p.216

²² *Ibid.*, p.217

²³ Krasner, *op.cit.*, pp.524-25

liberalising effect on the system in the following ways.

First, the Tokyo Round succeeded in constraining the economic sovereignty of states and the right to arbitrary action which importing nations have traditionally exercised in the non-tariff aspects of international trade.²⁴ This success contributed to make the trading system more open, liberal, fair, and justifiable. An attempt to create a more liberal and open trading system was achieved essentially in tariff negotiation, in the agreement on civil aircraft, and in the code on government procurement.²⁵ Tariffs were reduced so as no longer to pose as serious obstacles for trade in most manufactured goods. This is 'a historic achievement, and central to any assessment of the post-war trade regime'.²⁶ The agreement on civil aircraft offers a clear example of how intra-sectoral crosscutting cleavages can create an atmosphere favourable to a liberal trend.²⁷ The government procurement code is an outstanding thrust toward the national sovereignty, because the code succeeds in impinging on the basic relationship between states and their societies.²⁸ In addition to creating freer trade, the Round made the trade system fairer, by reducing the scope for uncertain, arbitrary government constraints on international trade. This achievement was shown in the codes on customs valuation, technical standards for products, and import licensing, as well as the transparency provisions of the government procurement code.²⁹ The renegotiated version of the 1967 anti-dumping code also tightened up existing GATT rules.³⁰

Second, the Round became a significant hedge against protectionist action. As noted earlier, the economic environment when the Round was held was extremely difficult. There were two oil shocks, the breakdown of the Bretton Woods system, widespread economic stagnation, and a rapid shift in international comparative advantage. Different states undertook particularistic calculations of interest under pressure from national economic groups. A failure to reach agreement could easily have led the trade regime to degenerate into a collapse of basic principles and a complete contraction of trade flows. The Tokyo Round not only offered a rationale for governments to avoid taking extensive protectionist actions, but its success was an essential bulwark against a proliferation of new trade barriers.

Third, the Tokyo Round opened the way for further far-reaching liberalisation. The MTN is a means of dealing with tariff reductions and other issues that are dealt with in the General Agreement. The Round was the first substantive attempt to deal with NTBs beyond the traditional trade issue of tariffs and gained a considerable outcome. In the Uruguay Round, new issues such as trade in services, trade-related investment measures, and intellectual property rights were tackled. They were not regarded as subjects of MTN before. However, the GATT was willing to attack these new trade restrictions in order to promote all over liberalisation. The Tokyo Round was an important forerunner in this regard.

²⁴ Winham, op.cit., p.16

²⁵ Ibid., p.362

²⁶ Lipson, op.cit., p.425

²⁷ Krasner, op.cit., p.511

²⁸ Ibid., p.514

²⁹ Winham, op.cit., p.362

³⁰ Jock A, Finlayson, and Mark W, Zacher, 'The GATT and the Regulation of Trade Barriers: Regime Dynamics and Functions', in Stephen D, Krasner, ed., *International Regimes*, p.286

The Tokyo Round left important problems such as agricultural agreement and safeguards. The central norm of non-discrimination was also breached in some codes and revisions. Furthermore, the effectiveness of the new codes which deal with future trade problems was limited because of an absence of sound monitoring, compliance and dispute settlement methods.³¹ Yet the problems of agriculture and safeguards are concerned with the most fundamental sphere of economic sovereignty. Several key trading nations including the United States, Canada, Japan continue to pay homage to the norm of non-discrimination.³² Other norms, such as reciprocity, multilateralism, transparency of trade barriers, and the goal of liberalising trade barriers still function as basic tenets of trade relationships.³³ The most crucial is that the Tokyo Round demonstrated that the major trading powers still support a relatively open trading order, despite protectionist pressures and difficult economic environments.³⁴

How are the results of the Tokyo Round theoretically explained? The most prominent theory to explain the nature of international trading system and the changes within it is the theory of hegemonic stability. The theory claims that an open and liberal world economy requires the existence of a hegemonic or dominant power to flourish and reach its full development.³⁵ The hegemonic power creates and maintains liberal economic system by providing collective goods. The rise or fall of a hegemonic actor leads to the emergence or decline of the liberal international regimes. According to the theory, since the United States had lost its hegemonic power in the late 1960s and 1970s, the trade regime would have weakened. However, not only did the GATT continue functioning as a multilateral forum, but also a persistent reduction of tariffs had been made during the 1960s and 1970s.³⁶ Furthermore, the ongoing expansion of the negotiating agenda was seen in the Tokyo Round and the Uruguay Round. There occurred several movements against trade liberalisation, such as the emergence of sectoral barriers, the decline of dispute settlement procedures. However, the causes of sectoral protection were not the decline of American hegemony, but the recession of the mid 1970s, the rise of manufactured exports from the NICs and Japan, and political and economic pressures from domestic interest groups.³⁷ The dispute procedures appear to have failed by the late 1950s, when the American leadership was intact.³⁸ If we adopt the theory to the Tokyo Round, a decline in U.S. economic power should have impeded and reversed the multilateral reduction of trade barriers, and the Round should have produced a protectionist result. In reality, however, this did not occur. In spite of the erosion of liberal principles in some areas and the fact that important issues such as agriculture and safeguards could not be resolved, the outcome of the negotiations, on the whole, was cooperative and constructive. In short, most major changes in the trade regime had little to do with the decline in U.S. economic power. The dominance of a single great power may contribute to order in the international regime in particular circumstances, but it is not a sufficient condition and there is little

³¹ Robert E, Baldwin, *Beyond the Tokyo Round Negotiations*, p.7

³² Finlayson and Zacher, op.cit., p.282

³³ Lipson, op.cit., p.452

³⁴ Ibid., p.452

³⁵ Robert, Gilpin, *The Political Economy of International Relations*, p.72

³⁶ Lipson, op.cit., p.439

³⁷ Robert O, Keohane, 'The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967-1977', in Ole R, Holsti, et al, eds., *Change in the International System*, pp.152-54

³⁸ Lipson, op.cit., p.441

reason to believe that it is necessary.³⁹

Why could the Tokyo Round negotiation produce liberal results? The most crucial reason is that major trading nations shared liberal ideals. Western nations regarded free liberal trade as contributing to their own national interests, and they cooperated to ensure that the interests were realised and maintained through the GATT system. The preference toward freer trade among the nations was not forced on them by the United States but they genuinely believed that their economies would benefit thereby.⁴⁰ The preference toward liberal trade has also been found in the public attitude. For example, when a protectionist spokesman speaks for protection of a particular industry, it seems that he often tacitly accepts the argument of his opponents and contends that his own industry is an exception.⁴¹ This attitude is seen at the Tokyo Round negotiation. In America, forty-five private sector advisory committees functioned over the course of the Tokyo Round. The result of the negotiation was supported by most of the committees.⁴² The Tokyo Round negotiation was conducted in a milieu of liberal values, and these values motivated participants as well. These motivations are clearly shown in some of the statements of governments. For instance, the United States, in the president's letter of transmittal to Congress, spoke of the ambitious effort to revise the rules of international trade and to achieve a fairer, more open, world trading system.⁴³ Moreover, the 'Downing Street Declaration', produced by the London Summit meeting in May 1977, pledged to provide 'strong political leadership to expand opportunities for trade to strengthen the open international trading system' and to give 'a new impetus to the Tokyo Round of Multinational Trade negotiation'.

What, then, created the trend toward liberal values? First of all, the liberal trend stemmed from lessons of the inter-war period. It was broadly recognised that the protectionism of the 1930s had contributed to economic breakdown and political instability, eventually leading to the disastrous war. One reason why the international economic system broke down in the inter-war period was associated with several failed negotiations to seek a more cooperative approach in the international system. All agreed that a return to reckless protectionism had to be avoided. In addition, empirical evidence supported the trend. During the post-war years, the volume of international trade has been maintained at a high level, and has promoted economic growth throughout the world. Freer trade has also served to raise living standards. As an analysis by the Curzons shows, the most successful traders were also the most successful at economic expansion, in part because of the gains from trade that they enjoyed.⁴⁴

The last but most crucial reason is that rising interdependence in the world economy has created new trade trends among leading trading nations. One of these trends is an increase of intra-industry trade or the simultaneous export and import by countries of products within the same industry. For instance, intra-industry trade as a percentage of the total trade among the EEC member states rose from 53 percent in

³⁹ Robert O, Keohane, *After Hegemony*, p.46

⁴⁰ Gerard, Curzon and Victoria, Curzon, 'The Management of Trade Relations in the GATT', in Andrew, Shonfield, ed., *International Economic Relations of the Western World 1959-71*, p.195

⁴¹ Raymond A, Bauer, et al, *American Business & Public Policy*, pp.146-48

⁴² Joan E, Twigg, *The Tokyo Round of Multinational Trade Negotiations*, p.42

⁴³ Winham, op.cit., p.399 quotes U.S. House of Representatives, Message of the President (1979)

⁴⁴ Gerard, Curzon and Victoria, Curzon, op.cit., p.197

1957 to 65 percent in 1967.⁴⁵ In the past, the export of manufactured goods was limited by their exchange in the production and trade of primary products. In the 1960s and 1970s, however, this linkage was broken.⁴⁶ Industrialised countries could increase opportunities to trade specialised manufactured goods with one another.⁴⁷ Since international trade in manufactured goods is basically an expansion path across national frontiers of a country's domestic activity, products that are exported are likely to be products prepared for home consumption. As a result, the more similar the demand structures of two countries, the more intensive is the trade between these two countries.⁴⁸

It could be said that intra-industry trade and trade liberalisation are mutually reinforcing. 'Trade liberalisation among advanced nations tends to stimulate intra-industry trade, while the efficiency gains and low adjustment costs tend to reinforce the liberalisation enterprise'.⁴⁹ The reasons are as follows. First, trade liberalisation in sectors where intra-industry trade prevails necessitates less adjustment assistance compared with sectors where inter-industry trade dominates.⁵⁰ Intra-industry specialisation necessitates a shift of resources within industries while inter-industry specialisation requires a shift from import competing to export expanding industries. In the case of intra-industry specialisation, the export expanding and import competing sectors are merely two sectors in the same industry. It is unlikely that workers will be forced to leave a particular industry or region, and hence the risk of structural unemployment is reduced. Second, since industries involved in intra-industry trade are dynamic and adaptive, they can overcome growing imports by specialising in sub-sectors where they have comparative advantage. Such firms can maintain a pro-liberal stance when faced with growing imports. Third, it is easier to negotiate trade concessions on intra-industry trade, for the same industry that would suffer a loss through trade concessions might be compensated by gains from such concessions. Fourth, the rise in intra-industry trade generates allies who export to a partner's country and will oppose protectionist measures in domestic markets against the partner's imports.

In addition to intra-industry trade, as the world economy has developed toward more complex specialisation, one set of corporations have specialised in trade and foreign direct investment.⁵¹ The surge of market competition among these MNCs led to an enormous outpouring of foreign direct investment in the post-war era. By 1971, the total value of international production which was generated by world-wide branch plants amounted to some \$330 billion, which surpassed the total value of world exports

⁴⁵ Herbert G. Grubel and P. J. Lloyd, *Intra-Industry Trade*, p.134

⁴⁶ Alfred, Maizels, *Growth and Trade* p.84 raises three factors to explain the shift in world demand from primary products toward manufactured goods. They are the shift in manufactured production away from raw material intensive products toward engineering and chemicals; the improvements in producing a given volume of manufactures from a progressively small volume of materials; the development of synthetic substitutes for various natural primary products.

⁴⁷ Andrew, Shonfield, 'International Economic Relations of the Western World: An Overall View' in Shonfield, ed., op.cit., pp.105-106

⁴⁸ Staffan Burenstam, Linder, *An Essay on Trade and Transformation*, pp.87-99

⁴⁹ Lipson, op.cit., p.445

⁵⁰ N., Grimwade, *International Trade*, pp.388-91

⁵¹ I. M, Destler, and John S, Odell, *Anti-Protection*, p.63

in the same year of some \$310 billion.⁵² MNCs' global operations have set up a network of international trade flows within the firms. For example, in Asian-Pacific region, 27 percent of sales of manufactured goods of U.S. affiliates went to the U.S. market in 1977 up from less than 10 percent in 1966.⁵³ This intra-firm trade has created a bias toward liberalism because MNCs engaged in such trade regard protection as costly. MNCs generally gain more benefits from policies that reduce barriers to trade and investment flows because foreign production is impossible without some trade in intermediate products and MNCs' value-added activities are directed to create or divert trade in goods and resource.⁵⁴ For these firms, national tariffs or other trade barriers act as an additional tax on internal transfers, and new cost that may undermine the existing pattern of trade and investment. Moreover, demanding protection in the home market may promote greater protection abroad or new restrictions on their foreign operation and trade flows.⁵⁵

The interests of domestic actors play an important role in shaping trade policies. For instance, Milner demonstrates that the preference of internationally oriented firms in the United States and France for trade liberalisation has influenced the structure of the trade policymaking, thereby providing crucial resistance to protectionist pressure in the 1970s and early 1980s.⁵⁶ This means that increasing interdependence contributes to erase the borders dividing international and domestic politics. Domestic political and economic issues affect international politics, and foreign policies such as trade policy often has been formed by domestic roots.

5. Conclusion

The world trade system, where relations among actors are competitive, is inherently fragile and unstable. The competitors are kept within reasonable bounds by self-imposed rules and norms of behaviour. In such a system, one violation of the norms leads to a danger of retaliation, and further retaliation in response. There is always a danger that the competition might degenerate into competitive protectionism, and into full-scale retaliation.⁵⁷ As the history of the post-war period shows, the expansion of trade contributes to the increase of economic growth and world welfare. Nonetheless, without a major liberalising initiative, the pressure for protection is more likely to gain momentum because of the fragile nature of the system. The role of MTN, as such an initiative, is very important. The existence of MTN provides both substantive reason and political justification for avoiding new restrictions on trade.⁵⁸ The Round really helps 'the trade policy "bicycle" keep its forward-moving momentum'.⁵⁹

In addition to the fragile nature of the international trading system, in recent years, peoples increasingly hold their governments responsible for economic conditions and economic welfare through policies for economic growth, full employment, and income distribution. On the other hand, in a highly interdependent world economy, in

⁵² Shonfield, op.cit., p.115

⁵³ Joseph, Grunwald and Kenneth, Flamm, *The Global Factory*, pp.3-4

⁵⁴ John, H. Dunning, *Multinational Enterprises and the Global Economy*, p.402

⁵⁵ Milner, op.cit., p.645

⁵⁶ Ibid.

⁵⁷ Winham, op.cit., p.402

⁵⁸ C. Fred Bergsten and William R. Cline, 'Trade Policy in the 1980s: An Overview' in Cline, ed., op.cit., p.90

⁵⁹ Cline, op.cit., pp.9-10

which economic measures in one state are likely to affect economic conditions in other states, states must coordinate their economic policies. One of the most fundamental issues of contemporary international political economy is how to reconcile national autonomy and international management. The Tokyo Round succeeded to some extent in resolving the issue by imposing international norms on national autonomy to NTBs.

It is important to pay due attention to the influence caused by increasing economic interdependence when analysing the outcome of the Round. Trade liberalisation in the post-war years has produced similar economic structure in major trading nations. This leads to the increase of intra-industry trade. Moreover, the operative expansion of MNCs has contributed to an increase in intra-firm trade. Stronger international economic linkages in the form of intra-industry and intra-firm trade have raised the costs of protectionism.

In order to maintain the liberal trading system in the future, coordination between national autonomy and international management should continue. This will have to be done through a process of multinational negotiations, which is the most effective tool for this task.

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