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# Multilateralism and Discrimination in GATT Round Negotiations

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## 1. Introduction<sup>1</sup>

One can hardly discuss the post-war international economic order without understanding the series of multilateral liberalization efforts which were predominantly orchestrated under the General Agreement on Tariffs and Trade (GATT). Iterative rounds of negotiations achieved a drastic reduction in trade barriers, slashing average tariffs of Western economies to approximately 3% by 1999 from more than 20% at the inception of the initiative.<sup>2</sup> When studies on multilateralism became increasingly prominent in the 1990s, its key elements were often identified by observing the institutional features of GATT. It has always been a classic example of a multilateral international arrangement.<sup>3</sup>

However, the multilateralism of the GATT regime is unique due to its genesis and functional nature of the issue. As explored in the next section, the term multilateralism is usually defined as “an institutional form that coordinates relations among three or more states on the basis of generalized principles of conduct.”<sup>4</sup> This definition misses the central component of the GATT/WTO (World Trade Organization) regime. Due to the historical trajectory and functional mechanisms specific to the realm of trade liberalization, the principle of nondiscrimination has occupied a central tenet in the GATT/WTO regime. This principle became particularly salient in the decades after the 1990s when there was a rapid rise in Regional Trade Agreements (RTAs), which heightened concerns about proliferating

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<sup>1</sup> This article is based on a book chapter published in Japanese. Kazutoshi Suzuki, “GATT raundo koushou ni okeru takaku shugi no seisui” (Rise and Decline of Multilateralism in GATT Round Negotiations, when literally translated), in Naya Masatsugu and Sophia University Institute of International Relations (eds.), *Jiyushugiteki kokusai chitsujo wa houkai suru no ka: kiki no genin to saisei no jouken (Will the Liberal International Order Disintegrate?: Causes of the Crisis and Conditions for Regeneration)*, Keisou Shobou, January 20, 2021, pp. 217-240. Translated and published under the permission of Keisou Shobou. The author would like to thank Professor Tadashi Anno for valuable comments.

<sup>2</sup> Chad P. Bown and Douglas A. Irwin, “The GATT’s Starting Point: Tariff Levels circa 1947,” Policy Research Working Paper 7620, Development Research Group, Trade and International Integration Team, World Bank Group, 2016.

<sup>3</sup> Robert O. Keohane, “Multilateralism: An Agenda for Research,” *International Journal* 45(4), 1990, pp.731-76; John Gerard Ruggie, “Multilateralism: the Anatomy of an Institution,” *International Organization* 46(3), 1992, pp.561-598.

<sup>4</sup> Ruggie *op.cit.*, p.571.

discriminatory trade practices. Consequently, there were growing fears of eroding “multilateralism,” which was the pivotal pillar of the liberal international economic order.

This study revisits the GATT round negotiations, which have often been contrasted with bloc economies and regionalism, focusing on the implementation of this non-discrimination principle. Although round negotiations involved more than three states, and their generalized rules and norms evolved to the point of establishing the WTO in 1995, these features alone do not guarantee substantive non-discrimination. Trade discrimination can be more complicated than it appears, and even seemingly multilateral agreements can serve as preferential policy tools. In this context, Gowa, Kim, and Hicks argued that multilateral agreements were crafted to internalize benefits among certain advanced nations using the *principal supplier rule*, demonstrating this with statistical shifts in discriminatory trade flow.<sup>5</sup>

However, a more thorough examination is required to discern when and to what extent substantive discrimination intensified during the postwar period. This is because the procedures in round negotiations varied drastically over time and governments adopted different rules and practices, including those other than the principal supplier rule, to privilege some members over others. Thus, this study aims to scrutinize the mechanisms and temporal shifts in the GATT round negotiations, providing an overview of the rise and fall of “multilateralism in the GATT.” The result will provide implications for the discussion regarding the relationship between the spread of regionalism and the potential crisis of the liberal order.

Section 2 reviews the origins and idiosyncrasies of multilateralism in the GATT. It discusses non-discrimination as a key component of multilateralism in trade, clarifying what “multilateralism” and its counter-concept “preferentialism” entail. Thereafter, it delineates two distinct modes of trade discrimination: country- and item-based. Both modes constitute the observable implications of preferentialism/regionalism, whereas general and non-discriminatory agreements imply multilateralism in trade. Section 3 explores each negotiation round empirically and evaluates the degree of preferentialism based on trade discrimination. Section 4 compares the rise and fall of multilateralism with the spread of regionalism and demonstrates the role of preferential regionalism in delivering a non-discriminatory multilateral trade order.

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<sup>5</sup> Joanne S. Gowa and Soo Yeon Kim, “An Exclusive Country Club: The Effects of the GATT on Trade 1950-94,” *World Politics* 57(4), 2005, pp.453-478; Gowa and Raymond Hicks, “The Most-Favored Nation Rule in Principle and Practice: Discrimination in the GATT,” *The Review of International Organizations* 7, 2012, pp.247-266.

## 2. Multilateralism and non-Discrimination in Trade

### 2.1 The GATT Regime and the Principle of Non-discrimination

The multilateral nature of the GATT owes much to the experience of the Great Depression and bloc economies in the interwar era. Even before his election, U.S. President Herbert Hoover advocated agricultural protection. Upon assuming office in the spring of 1929, he swiftly urged Congress to protect agriculture. Subsequently, amid the turmoil of the stock market crash, the Smoot-Hawley Tariff Act, which broadly increased tariffs on both agricultural and industrial products, was enacted in 1930 as a result of legislative logrolling.<sup>6</sup> This policy spurred retaliatory measures from European governments, causing U.S. imports, exports, and global trade to decline by approximately two-thirds over the following years.

Cordell Hull, Secretary of State under the Franklin D. Roosevelt administration, had long been critical of trade protection. According to his own account, during World War I, he came to believe that eliminating trade barriers and promoting fair competition were essential for achieving peace.<sup>7</sup> Post-war, he argued for an international conference to establish a free and fair trade system. Although a congressman's conception did not materialize this time, by the end of the second World War, a discourse linking a free international economic system with peace began to gain traction within the U.S. government. Thus, Hull's vision was brought into reality. Despite resigning as Secretary of State in 1944 owing to health concerns, his beliefs continued to influence, leaving a profound imprint on GATT's foundational principles.<sup>8</sup>

Some studies have questioned allegations that the Smoot-Hawley Tariff Act caused the Great Depression.<sup>9</sup> Considering that many tariffs during this period were specific rather

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<sup>6</sup> E.E. Schattschneider, *Politics, Pressures, and the Tariff*, New York: Prentice-Hall, Inc., 1935.

<sup>7</sup> Cordell Hull, *The Memoirs of Cordell Hull*, New York: The Macmillan Company, 1948, volume I, pp.81-85. His critical stance against protectionism persisted throughout the interwar period. Michael A. Butler, *Cautious Visionary: Cordell Hull and Trade Reform, 1933-1937*, Kent: Kent State University Press, 1998.

<sup>8</sup> Robert A. Pollard, *Economic Security and the Origins of the Cold War*, New York: Columbia University Press, 1985, pp.11-13, 16.

<sup>9</sup> Mario J. Crucini, "Sources of Variation in Real Tariff Rates: The United States, 1900-1940," *The American Economic Review* 84(3), 1994, pp.732-743; Douglas A. Irwin, "The

than *ad valorem*, the real tariff burden increased as commodity prices dropped during the recession, exerting more significant effects than mere rate hikes suggest.<sup>10</sup> Nonetheless, the policy incited a backlash in European countries, leading to bloc economies epitomized by the Ottawa Conference. The U.S. in the 1940s painstakingly sought to dismantle or weaken these preferential arrangements. The genesis of the GATT is a history of challenges, at least in the eyes of the U.S. delegation, to re-establish freer and non-discriminatory avenues to Western Europe.<sup>11</sup>

Considering this historical trajectory, the GATT's multilateralism has been consistently juxtaposed with bloc economies. Thus, central to this confrontation was not necessarily about reducing trade barriers but whether such reductions should be implemented indiscriminately. Imperial Preference, which was deemed a cause for bloc economies to erect trade barriers against foreign products, reduced tariffs within the Empire. During the negotiations, Britain was forced into substantial tariff concessions, which significantly increased its trade deficit with member countries in the following years.<sup>12</sup> Although it was a multi-party arrangement with significant tariff cuts, such country-specific liberalizations are not regarded as “liberal” and are positioned diametrically opposite to the post-war multilateral liberalization.

Another reason for the critical importance of nondiscrimination in international trade is its functionality. By expanding preferential margins, discriminatory trade liberalization inherently amplifies the negative externalities borne by non-member countries. Non-members can suffer from trade diversions because importers of foreign goods switch to

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Smoot-Hawley Tariff: A Quantitative Assessment,” National Bureau of Economic Research Working Paper, 5509, 1996.

<sup>10</sup> An *ad valorem* tariff of 10% consistently represents a 10% burden on the value of the commodity. In contrast, a specific tax of 10 dollars on a 100-dollar commodity, when the commodity's price drops to 50 dollars, effectively becomes 20% of the commodity's value.

<sup>11</sup> On the establishment of the GATT, refer Douglas A. Irwin, Petros C. Mavroidis and Alan O. Sykes, *The Genesis of the GATT*, New York: Cambridge University Press, 2008; Yamamoto Kazuto, *Takokukan tsusho-kyoutei GATT no tanjyou puroseshu (The Birth Process of the Multilateral Trade Agreement GATT)*, Minerva Shobo, 2012.

<sup>12</sup> On the relation between the preference in the Ottawa Agreement and UK import tariff that had been revived four months ahead, refer to Inoue Tatsumi, “1932 nen no igirisu yunyu kanzei hou to Ottawa tokkei kyoutei no seiritsu” (The Establishment of the 1932 British Import Duties Act and the Ottawa Agreements), *Rekishi to Keizai (History and Economy)* 53(1), 2010, pp.16-29.

suppliers located in member states.

## 2.2 Two Modes of Trade Discrimination

To assess multilateralism in GATT, the concepts and means of trade discrimination must first be clarified. Most states' trade policies are situated somewhere between the two extremes of absolute freedom and complete autarky. Although imposing a uniform barrier regardless of exporters would be simpler, discriminatory barriers are commonly adopted. The discrimination can be based on specific items and/or trading partners.

Throughout history, product-based discrimination has been widely used because of its ease of customs inspection.<sup>13</sup> With the advancement of industrialization and the rising importance of domestic industry protection as a policy goal, the significance of this type of discrimination has increased. By finely categorizing tariffs based on their processing stages, governments can attract specific stages of the international supply chain to their domestic locations. In contemporary settings, it is common to observe higher import tariffs on finished products than intermediate goods or raw materials to shield domestic manufacturers.<sup>14</sup> This persists even in today's liberalized "global economy," signifying the continued presence of barriers intended for industrial protection.

Country-based discrimination pertains to differential trade restrictions, depending on the trading partner. Strengthening restrictions against specific countries, including economic sanctions and trade controls, can serve diplomatic and security goals. As seen in Section 301 of the U.S. Trade Act, it can also be used as bargaining leverage. Conversely, selective liberalization geared toward specific partners can deepen trade relations and provide mutual benefits. In these instances, trade diversion may occur, where products from privileged countries replace those from outsiders in the market. This can lead to benefits that surpass initial tariff reductions. A historical instance can be traced back to pre-1823 Britain, which established treaties exchanging exclusive trade rights with partner states in a stark attempt to

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<sup>13</sup> Detailed records remain for ancient Greece, India, and Roma. In Ptolemaic Egypt, the royalty imposed high protective tariffs on products they produced (such as wine, honey, olive oil) to support domestic prices. Asakura Hironori, *Sekai kanzei shi (History of Customs Duty in the World)*, Nihon Kanzei Kyokai, 1983, pp. 45-110.

<sup>14</sup> Chad P. Bown and Meredith A. Crowley, "The Empirical Landscape of Trade Policy," Policy Research Working Paper 7649, Development Research Group, Trade and International Integration Team, World Bank Group, 2016.

achieve complete market substitution.<sup>15</sup> Notably, when liberalization targeted at selected state induces a significant trade diversion effect, third countries experience adverse spillover effects, despite barriers to these third countries remaining unchanged.<sup>16</sup>

These two forms of discrimination are interlinked because exported items differ across countries. Thus, employing one type can sometimes control another. For example, Japan's choice of Regional Trade Agreement (RTA) partners reflects its use of country-based discrimination in managing traded items. Facing opposition to agricultural liberalization, which hampered RTA negotiations, Japan selected Singapore as its first negotiation partner because its agricultural sector was almost negligible.<sup>17</sup> This country-based choice enabled the Japanese government to bypass agricultural liberalization (product discrimination), while simultaneously achieving its first RTA. Conversely, product-based discrimination can be used to control trading partners by liberalizing items that only the target country exports. As will be discussed later, this approach has been predominantly employed in GATT round negotiations.

### 2.3 Country-based Discrimination and Multilateralism

The primary subject of this study – multilateralism in the domain of trade – directly pertains to the concept of discrimination against trading partners. There were comprehensive discussions in academic journals in the 1990s concerning the general concept of multilateralism, particularly in relation to international regimes. The definitions provided therein encompass notions such as “the practice of co-ordinating national policies in groups of three or more states, through ad hoc arrangements or by means of institutions”<sup>18</sup> and an institution that “coordinates behavior among three or more states on the basis of generalized principles of conduct.”<sup>19</sup> These definitions emphasize international rules and shared norms. In operationalizing multilateralism, Thompson et al. “treat as multilateral any agreement based on general obligations that apply across many states and treat as bilateral any agreement

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<sup>15</sup> A. A. Iliasu, “The Cobden-Chevalier Commercial Treaty of 1860,” *The Historical Journal* 14(1), 1971, p.68.

<sup>16</sup> On economic effects of RTAs, Masahiro Endo, *Chiiki boueki kyoutei no keizai bunseki (Economic Analysis of RTAs)*, Tokyo Daigaku Shuppankai, 2005.

<sup>17</sup> Sakuyama Takumi, *Nihon no TPP kousyou sanko no shinjitu (The truth behind Japan's Participation in the TPP Negotiations)*, Bunshindo, 2015.

<sup>18</sup> Keohane, *op.cit.*, p.731.

<sup>19</sup> Ruggie, *op.cit.*, p.574.

based on obligations that apply only to particular states.”<sup>20</sup>

Although the general definition of multilateralism varies subtly among scholars, a common challenge emerge when applying it to trade. Exclusive agreements such as the NAFTA(North American Free Trade Agreement), the European Union, and possibly even British Imperial Preference would be categorized under multilateralism. Considering the history of the GATT's multilateralism, which emerged in response to preferential blocs, it is inappropriate to include these agreements when attempting to assess the rise and fall of multilateralism. At first sight, it appears logically straightforward to consider RTAs with more member states as “more multilateral.”<sup>21</sup> However, the negative externalities that RTAs have on nonmember countries tend to amplify as they scale up. This potentially leads to a situation where “more multilateral” RTAs possess more substantial discriminatory impacts! Had the British Empire been limited to the island of Great Britain, Imperial Preference would not have invited such a polemic. Since non-discrimination forms the crux of “GATT's multilateralism,” we should focus on whether differential treatments per partner are permitted.

There can be criticism that the GATT, initiated by 23 countries and regions primarily comprising Western allies, may itself be categorized as a large-scale preferential agreement. However, it covered half of world trade at its inception,<sup>22</sup> and reportedly 80% by 1952.<sup>23</sup> In addition, history has revealed its inherent capacity to expand globally. Therefore, for the sake of simplicity, this study adopts a nomenclature distinguishing multilateralism in GATT as a “tendency to uniformly restrict/liberalize trade across all GATT member countries/regions (including potential future members)” and preferentialism as a “tendency to implement differential trade restrictions/liberalizations according to the partner.”

Note that this definition, while emphasizing the presence or absence of discriminatory treatment, does not distinguish between international arrangements based on the number of countries involved. Thus, an agreement that does not aim for equal conditions

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<sup>20</sup> Alexander Thompson and Daniel Verdier, “Multilateralism, Bilateralism, and Regime Design,” *International Studies Quarterly* 58(1), 2014, pp.15-28. p.15.

<sup>21</sup> This formulation can be effective depending on the purpose. For example, see Harlan Grant Cohen, “Multilateralism's Life Cycle,” *American Journal of International Law* 112(1), 2018, pp.47-66.

<sup>22</sup> Bernard M. Hoekman and Michel M. Kostecki, *The Political Economy of the World Trading System: From GATT to WTO, Third Edition*, Oxford University Press, Kindle edition, 2009, para.2050.

<sup>23</sup> Karin Kock, *International Trade Policy and the Gatt 1947-1967*, Stockholm: Almqvist & Wiksell, 1969, p.72.



would not fit our definition of “multilateralism” even when it involves all sovereign states. Conversely, bilateral agreements can possess “multilateral” characteristics. For instance, the 19th-century European unconditional most-favored-nation treatment network, often cited as an example of a multilateral free trade order, is perceived to have emerged from the accumulation of bilateral treaties, beginning with the 1860 Cobden-Chevalier Treaty.<sup>24</sup>

These classifications of multilateralism and preferentialism correspond to diffuse and specific reciprocity, respectively.<sup>25</sup> Specific reciprocity entails a narrow spectrum of reciprocity in which equivalent values are deliberated with a particular partner. As the value that can be provided varies by partner, it easily leads to discriminatory treatment through differentiated agreement terms. Negotiations proceed in a quid pro quo manner, aiming for a balanced gains among the participating countries. If such reciprocity is observed during negotiations, it provides supportive evidence for preferentialism.

In diffuse reciprocity, the recognition of individual trading partners is faint, with vague equivalency evaluations, and the benefits for collective goods are emphasized. It often embodies a social contract, considering prospective benefits such as the rule of law. This type of reciprocity often materializes institutionally through adhering to “generally accepted standards of behavior”<sup>26</sup> or “generalized principles of conducts.”<sup>27</sup> As countries under different circumstances must adapt to uniform conditions or rules, the associated costs can differ, not necessarily ensuring a balance in individual interests. If round negotiations manifest uniform condition applications or systemic progress, they can be considered

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<sup>24</sup> Although it appears to contradict his own definition mentioned earlier, this claim is made by Ruggie himself (Ruggie, *op.cit.*, p.581). In principle, if most-favored-nation treatment is established in all relevant pairs, equal conditions are achieved.

<sup>25</sup> Robert O. Keohane, “Reciprocity in International Relations,” *International Organization* 40(1), 1986, pp.1-27. Ruggie, emphasizing the difference between the principles of organizations and regimes and order, states that “successful cases of multilateralism in practice appear to generate among their members what Keohane has called expectations of ‘diffuse reciprocity’.” Dating back more than a decade from these analyses, Curzons had indicated two types of reciprocity in GATT: *negotiated reciprocity* for specific tradeoffs and *automatic reciprocity* for general application of rules. Gerard Curzon and Victoria Curzon, “The Management of Trade Relations in the GATT,” in Andrew Schonfield ed., *International Economic Relations of the Western World 1959-1971*, volume 1, London: Oxford University Press, 1976, pp.143-183.

<sup>26</sup> Keohane, “Reciprocity in International Relations,” p.4.

<sup>27</sup> Ruggie, *op.cit.*, p.574.

observable implications of multilateralism in trade. The following section uses these criteria to assess the course of round negotiations.

### 3. Reciprocity and Multilateralism in Round Negotiations

#### 3.1 Reciprocity in Request-and-Offer Approach

The first GATT negotiation began in Geneva in 1947 following the preliminary negotiations during the war. From this point up to the fifth round, known as the Dillon Round, a request-and-offer approach was employed. Under this procedure, participating nations exchanged lists indicating the products for which they wished to see tariff reductions (requests) and the products for which they were willing to reduce tariffs (offers). When the parties reached a bilateral agreement, the terms were extended to all member countries under the Generalized Most Favored Nation (MFN) rule. At face value, this system appears to leave no scope for specific reciprocity. Ruggie contrasts this with the “discriminatory” bilateral agreements that Nazi Germany imposed on Eastern European countries.<sup>28</sup>

However, non-discriminatory rules do not guarantee that the actual treatments are universally equal. If countries select products primarily exported by specific countries for liberalization, they can limit concessions to those countries while technically complying with the MFN rule. Such products can be deliberately crafted by refining the tariff classifications. For instance, suppose Countries A and B mutually wish to eliminate tariffs on gloves. Under the GATT rule, they are required to provide the same benefits to Country C without any reciprocal concessions. To avoid this, Countries A and B redefine their tariff classifications by distinguishing between cloth and leather gloves. They eliminate tariffs on cloth gloves, thus preserving bargaining chips against Country C, which primarily produces leather gloves. To the extent that these two types of gloves are substitutable in the market, a trade diversion effect will occur, excluding the leather gloves made in Country C from markets of Countries A and B. Country C will now have a strong incentive to engage in negotiations with Countries A and B.

Raising tariffs in preparation for negotiations was virtually prohibited before the initial Geneva negotiations and modifying tariff classifications could fall under this.<sup>29</sup> However, the U.S. had been refining its tariff classifications since the 1930s, which was

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<sup>28</sup> Ruggie, *op.cit.*, p.569.

<sup>29</sup> Yamamoto *op.cit.*, p.150.

perceived as sufficient. The U.S. delegation to the GATT believed that by carefully selecting products, it could preserve its bargaining power by avoiding the application of the MFN rule to third countries.<sup>30</sup> Regardless of intention, the number of specific tariff lines in the U.S. increased from 6,421 in 1963 to 10,175 in 2000.<sup>31</sup>

A frequently emphasized practice related to this is the “principal supplier rule.”<sup>32</sup> Under this rule, only the largest exporter of a product can make requests to the importing country. Since the principal supplier stands to benefit the most from tariff reductions, it typically offers greater concessions. This rule automatically avoids free-riding of the one who benefits the most.

For this rule to function, the offer lists should contain items for which production and exports are concentrated on the principal suppliers. If the market share of the principal supplier is low, the benefit of concession will “leak” to the third countries, which are not obliged to pay back equivalent concessions. However, as negotiations reiterate, selecting such items becomes a barrier to further liberalization.<sup>33</sup> If the country in question can demand compensation from other suppliers, liberalization can progress while maintaining specific reciprocity. This may appear to contradict the GATT rule, which requires the unconditional application of the MFN treatment to all members, however, its practical utility is clear. Negotiations between sovereign states are practical. Often, preliminary agreements on tariff reductions with principal suppliers are followed by secondary negotiations with third countries that benefit from the MFN treatment.<sup>34</sup>

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<sup>30</sup> Harry C. Hawkins, *Commercial Treaties and Agreements: Principles and Practice*, New York: Rinehart & Company, Inc., 1951, p.80.

<sup>31</sup> United States International Trade Commission, *Simplification of the Harmonized Tariff Schedule of the United States*, June 2000, p.4.

<sup>32</sup> Hawkins, *op.cit.*; Kock, *op.cit.*; Kenneth W. Dam, *The GATT: Law and International Economic Organization*, Chicago: The University of Chicago Press, 1970; Jock A. Finalyzson and Mark W. Zacher, “The GATT and the Regulation of Trade Barrier: Regime Dynamics and Functions,” *International Organization* 35(4), 1981, pp.561-602; Hoekman and Kostecki, *op.cit.* Inter alia, Gowa and Kim, *op.cit.* and Gowa and Hicks, *op.cit.* stress the role this rule played in generating trade discrimination.

<sup>33</sup> J. M. Finger, “Trade Liberalization: A Public Choice Perspective,” in Ryan C. Amacher, Gottfried Haberler and Thomas D. Willett eds., *Challenges to a Liberal International Economic Order*, Washington, D.C.: American Enterprise Institute for Public Policy Research, 1979, pp.431-432.

<sup>34</sup> Finlayson and Zacher, *op.cit.*, p.586.

### 3.1.1 Reciprocity before the Kennedy Round

Historical records of the early days of the GATT present signs of specific reciprocity. The quid pro quo with direct negotiating partners has been clearly recognized since 1947. Owing to the agreement between the U.S. administration and Congress regarding the implementation of the Reciprocal Trade Agreement Act of 1934, negotiations were conducted through explicit exchanges for each item with each counterpart.<sup>35</sup> The amounts of revenue loss were calculated by multiplying the traded value by the tariff reduction rate.<sup>36</sup> Put extremely, “one dollar of additional market access is exchanged for one dollar of additional opening in another country.”<sup>37</sup>

Such explicit and specific reciprocity soon clashed with the demand for general reciprocity. Countries with low tariffs, having nothing to offer in exchange, found themselves at a disadvantage and strongly resisted. Consequently, it was agreed that tariff bindings, the pledge to fix tariff rates at the current level and set them as the upper limit, also count as concessions. In Geneva and Annecy, the first and second rounds of negotiations, the U.S. agreed to curtail its tariff in return for bindings offered by low-tariff countries.<sup>38</sup> In bilateral negotiations with the Benelux Customs Union, a typical low-tariff player, most items offered by the U.S. were new reductions of one-half to one-third in *ad valorem* duties.<sup>39</sup> This appears to be an observable implication of general reciprocity since different burdens are undertaken

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<sup>35</sup> *Ibid.*, p.590; Alice Enders, “Reciprocity in GATT 1947: From 1942 to the Kennedy Round,” in Jagdish Bhagwati ed., *Going Alone: the Case for Relaxed Reciprocity in Freeing Trade*, Cambridge: the MIT Press, 2002, pp.85-110.

<sup>36</sup> The actual economic impact is not measurable solely by tariff revenue. Factors such as price elasticity of demand and economic growth matter. Additionally, the political significance varies for each product and industry.

<sup>37</sup> Hoekman and Kostecki, *op.cit.*, para.2701.

<sup>38</sup> The second Annecy Round was shortly after the first one, and the U.S. exchanged concessions only with the new member countries (Denmark, Dominica, Finland, Greece, Haiti, Italy, Liberia, Nicaragua, Sweden, and Uruguay). Therefore, it would be reasonable to consider these two rounds of negotiations together.

<sup>39</sup> GATT, “List of Items upon which the United States offers Tariff Concessions to the Customs Union of Belgium,” Luxemburg, and the Netherlands, Geneva, October 20, 1947. Unless otherwise specified, all “GATT documents” below were retrieved from GATT online archive in August 2020. [https://www.wto.org/english/docs\\_e/gattdocs\\_e.html](https://www.wto.org/english/docs_e/gattdocs_e.html)

for a comprehensive agreement. However, low-tariff countries dissatisfied with the tariff cuts offered by high-tariff countries only offered an extension of the existing bindings in the third round held at Torquay, and clashed with high-tariff countries that demanded new bindings for additional items.<sup>40</sup>

To resolve this standoff, the GATT proposed a plan devised by France.<sup>41</sup> This divides all items into ten categories, setting target values for the average within each category. Although it set a uniform reduction target for each country, making reductions larger for high-tariff countries, it also allowed for flexibility in tariff rates within each category, making it more acceptable. Although this proposal received support from the majority of contracting parties, it was not adopted even in the fourth round initiated in Geneva because of opposition from the U.S. and the U.K.<sup>42</sup>

This conflict continued until the fifth round in Dillon. The European Economic Community (EEC) proposed a uniform 20% reduction in the common customs tariff, which was of significant interest to the U.S. at that time. The U.S. government reconsidered uniform reductions, however, judged that unless exchanges were made for each item with their counterparts, it would exceed the mandate granted by Congress through the Reciprocal Trade Agreement Act. Ultimately, the *quid pro quo* was maintained.<sup>43</sup>

In overview, "reciprocity" was widely interpreted up to Annecy and practiced, with high-tariff parties accepting real "loss" by counting tariff bindings as concessions equivalent to tariff cuts. This was relatively easy to achieve because items with unbound tariffs abounded in the early stage of the GATT.<sup>44</sup> Additionally, the U.S. delegation recognized that it was difficult for foreign governments to reduce import barriers because their gold reserves were rapidly depleting owing to trade deficits with the U.S.<sup>45</sup> They were in the midst of postwar reconstruction and needed to bridge the gap between booming demand and poor supply

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<sup>40</sup> Kock, *op.cit.*, p.95.

<sup>41</sup> GATT, *Basic Instruments and Selected Documents, 2nd Supplement*, p.75.

<sup>42</sup> GATT documents, L/408.

<sup>43</sup> Dam, *op.cit.*, p.67.

<sup>44</sup> For the United States, the new reductions accounted for approximately 30% of the total concessions. After the Torquay Round, since the upper limit of tariff rates for many items had already been bound, most of the concessions were new reductions. Finger, *op.cit.*, p.423.

<sup>45</sup> Bernard Norwood and Harry C. Hawkins, "The Legislative Basis of United States Commercial Policy," in William B Kelly, Jr. ed., *Studies in United States Commercial Policy*, Chape Hill: The University of North Carolina Press, 1963, pp.69-71.

capacity with imports from the undamaged superpower. Faced with the menace of communism, the U.S. had to prioritize rebuilding and consolidating the West by refraining from strict reciprocity demands.<sup>46</sup> However, from the Torquay Round onward, the tendency to exchange concessions for specific items with specific partners intensified. During this period, a balance of concessions was expected both in advanced industrial and developing countries.<sup>47</sup>

### 3.1.2 Principal Supplier Rule and Unconditional MFN Treatment

The principal supplier rule had been the norm since the preliminary stages of the 1947 Geneva Conference.<sup>48</sup> However, even without this rule, it is unlikely that countries conducted differently, because negotiating with parties other than the top supplier allowed the top supplier to free-ride. Papers circulated during the fourth round in Geneva confirmed that the parties could refuse tariff cuts on the grounds that the major suppliers did not participate in the exchange of concessions.<sup>49</sup> However, the right to reserve concessions for specific items had always been clearly stated in this regime.<sup>50</sup> Whether such requests are accepted depends on the interests of the requested party. Therefore, the primary effect of this rule was to prevent fruitless requests by narrowing the initiator, as explained by the GATT Secretariat.<sup>51</sup>

The principal supplier rule is often treated as a manifestation or symbol of specific reciprocity, which is the correct description. Nevertheless, if the norm is an ideal typical specific reciprocity, where every state collects equivalent concessions from every country receiving the benefit of its tariff reduction, this rule would be meaningless in the first place. Paradoxically, the principal supplier rule can only be significant when some degree of multilateralism and general reciprocity through the unconditional application of MFN treatment to third countries is present. Therefore, neither the existence nor implementation of this rule constitutes sufficient evidence to assess whether reciprocity is specific or general. It is necessary to observe whether MFN treatment was applied to countries other than the

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<sup>46</sup> John W. Evans, *The Kennedy Round in American Trade Policy*, Cambridge: Harvard University Press, 1971, p.24.

<sup>47</sup> Finger, *op.cit.*, p.430.

<sup>48</sup> GATT documents, E/PC/T/33, p.49.

<sup>49</sup> GATT documents, L/408, p.6.

<sup>50</sup> GATT documents, TN/56/2, p.2.

<sup>51</sup> This appears on an informal paper distributed before the round in Torquay Round. Kock, *op.cit.*, p.100.

principal supplier without direct compensation.

The utility of compensation by third parties in the application of the MFN treatment was evident. It could promote broader liberalization while ensuring specific reciprocity. However, perhaps owing to the potential conflict with the principle of generalized MFN treatment, documents distributed to delegations by the GATT were expressed euphemistically, suggesting that “participating governments will be expected to take into consideration the indirect benefits which they will receive from the negotiations between other governments.”<sup>52</sup> In contrast, descriptions regarding the rights of members were more straightforward, authorizing the governments to modify the result of the “bilateral phase” of negotiation, reflecting the results of other negotiations.<sup>53</sup> The risk of withdrawing the original agreement with the principal supplier when negotiations with others failed was clearly recognized,<sup>54</sup> and this was leveraged to seek compensation from the countries receiving indirect benefits. By the fifth round in Dillon, it had become the norm for countries with a share exceeding 10% to pay compensation when receiving tariff cuts through MFN treatment.<sup>55</sup>

Compensation for MFN treatment was also observed in negotiation outcomes. Finger indexed the proportion of U.S. imports from countries that received direct tariff concessions from the U.S. (bilateral internalization rate) and the proportion of U.S. imports from all participating countries (multilateral internalization rate), with the latter including the spillover to third countries that received MFN treatment without compensation in return.<sup>56</sup> The bilateral internalization rates were 56% in Torquay, 74% in Geneva, and 69% in Dillon, remaining fairly constant.<sup>57</sup> In contrast, concessions to all participating countries increased from 62% to 89% and 96%, as the gap between bilateral and multilateral internalization rates gradually widened. The gap indicated higher needs for compensation from third countries, and this period coincided with the practice of collecting compensation from countries with a share of over 10%. Additionally, calculations by the U.S. Department of State indicated that countries that received more concessions from the U.S. than they provided were Austria, New

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<sup>52</sup> GATT documents, L/408, p.8.

<sup>53</sup> GATT documents, TN56/2, p.3. A similar description can also be found in the preparatory document for the Torquay Round, GATT/TN.2/10, p.2.

<sup>54</sup> Dam, *op.cit.*, p.63; Hoekman and Kostecki, *op.cit.*, para.2647-2649.

<sup>55</sup> Curzon and Curzon, *op.cit.*, p.173.

<sup>56</sup> Finger, *op.cit.*

<sup>57</sup> Exceptionally, in Annecy it was low at 35%. This is due to the fact that participants were limited to new member countries with limited economic size.

Zealand, Peru, and Portugal, which have relatively small trade volumes, whereas with larger advanced economies, the results were generally balanced or better.<sup>58</sup> These quantitative results suggest that the exchange of concessions was conducted specifically in the early stages of the GATT.

### 3.2 Reciprocity in Formula Approach

After the sixth round, Kennedy, “formula approach” became a practical option. In this approach, instead of exchanging tariff cuts for each item, a formula is determined to calculate the post-reduction tariff rate, which is applied to all members. Although this procedure appears to leave no scope for the reciprocal exchange of concessions with specific counterparts, there are at least three ways to realize the *quid pro quo*.<sup>59</sup>

First, specific deals can be made with the excluded items. Every country has its own sensitive items and excluding these items from formula-based reductions is necessary to secure the participation of major actors in the world economy. When the list of excluded items is set for each country, tradeoffs become possible: one country removes items of interest from another country's exception list in exchange for removing items from its own list in which the other country is interested. The second method removes the entire sector of interest: The removed sector is then the subject of bilateral exchanges, as in the case of agricultural products in the Tokyo Round negotiations. The third is to divide the overall agreement into multiple agreements and then allow the selection of whether to participate in each of these agreements, conferring benefits only to the signatory parties. This approach has been referred to as “GATT à la carte.”

If we observe these specific exchanges, preferentialism is at work. In contrast, supporting evidence of multilateralism and general reciprocity includes trends such as a decrease in the number of excluded items, the creation of a unified list of excluded items among different countries, a reduction of sectors that are completely removed from the formula, and the institutionalization of the same obligations to all member countries.

#### 3.2.1 Reciprocity in Kennedy Round

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<sup>58</sup> Curzon and Curzon, *op.cit.*, 160-161.

<sup>59</sup> Other methods include individual negotiations on the conditions for accession and managed trade using voluntary export restraints. As they are not closely related to the round negotiations, they have not been addressed in this paper.



U.S. concern over regionalization in Europe owing to the establishment of the EEC led to the Trade Expansion Act of 1962, which granted the president the authority to reach agreements without being constrained by exchanges of specific items with specific counterparts.<sup>60</sup> This made it possible to adopt the formula approach, which aimed for more general reciprocity. Analyzing the changes of this period, Enders described it as “adoption of a truly multilateral approach.”<sup>61</sup>

However, when we examine the observable implications aforementioned, the persistence of specific reciprocity becomes clear. When adopting the formula approach, the majority agreed on the exclusion of sensitive items, including the United States, the United Kingdom, the EEC, and Japan.<sup>62</sup> Moreover, the list of excluded items was not common across all countries but was specific to each country. Each country had its own list based on its political difficulties. For industrial protection, the items that one country wanted exempted usually constituted potential export targets for other countries, generating a perfect opportunity for barter: one country requests the removal of certain items from the list of excluded items, while in exchange, it removes items from its own exclusion list. Austria, Denmark, Sweden, and Switzerland initially offered a uniform 50% reduction without any exceptions. However, they later introduced exclusion to match those of other countries.<sup>63</sup> In the process of exchanging excluded items, as in the case of tariff cuts, reciprocity was usually judged by the affected trade volume, making principal suppliers continuously influential.

Of particular importance among the excluded items were agricultural products. In late 1962, shortly after the end of the Dillon Round, preparations for the sixth round began, emphasizing the inclusion of agricultural products in the next agreement.<sup>64</sup> At this time, the U.S. and EEC were in fierce conflict over tariffs on frozen chicken imported from the U.S., gathering attention for trade negotiations. U.S. negotiators held a hawkish position and even pledged to Congress that foreign agricultural liberalization would be preconditions for tariff cuts on U.S. industrial products. However, all agricultural products were eventually excluded from the formula. Separate agreements for cereals, meats, and dairy products were made, and

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<sup>60</sup> This act is highly conscious of negotiations with the EEC. It specifically names the EEC in the text, granting the president the authority to reduce tariffs without limit for agricultural products and goods where the U.S. and Europe hold a certain share in the global market.

<sup>61</sup> Enders, *op.cit.*, p.104.

<sup>62</sup> GATT documents, L/2002, p.7.

<sup>63</sup> Dam, *op.cit.*, pp.69-70.

<sup>64</sup> GATT documents, L/2002, p.1.

other agricultural products were negotiated on an item-by-item basis.<sup>65</sup>

This further undermined the uniform reduction scheme. When agricultural products were excluded from the formula, agricultural countries strongly opposed it, as they would have to slash industrial tariffs without receiving any equivalent benefit for their export sectors. Australia, New Zealand, South Africa, and Canada opted for item-by-item negotiations instead of uniform reduction.<sup>66</sup> Developing countries did not participate in the formula approach. As seen in the establishment of the UNCTAD (United Nations Conference on Trade and Development) in 1964, the demand from developing countries increased. Part IV (Articles 36-38) was added to the text of the GATT, with Article 36 explicitly stating that developed contracting parties do not expect reciprocity from less-developed contracting parties during trade negotiations.

Undoubtedly, the formula approach was undercut; only 16 countries, including the EEC and its members separately, participated in the formula negotiations. The other 36 contracting parties negotiated item by item, and they were kept out of the loop of the major players who were bargaining over the exchange of their excluded items.<sup>67</sup> In 1966, countries created lists of offers that would be withdrawn if their requests were not accepted, thereby accelerating negotiations.<sup>68</sup> By 1967, when the framework of the overall agreement solidified, negotiations moved to a phase in which bilateral concessions were balanced, as in the previous rounds. In this process, when equivalent compensations were not obtained, previous offers were withdrawn.<sup>69</sup>

The outcomes were balanced as intended. The difference between the weighted average tariff reduction the U.S. received from other uniformly reduced countries (35%) and the weighted average tariff reduction it provided (34%) was 1%. For bilateral pairs, the difference was within 5% for almost all pairs.<sup>70</sup>

### 3.2.2 Reciprocity in Tokyo Round

The Tokyo Round was initiated at a ministerial meeting in September 1973. Although the

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<sup>65</sup> Dam, *op.cit.*, p.71.

<sup>66</sup> *Basic Instruments and Selected Documents, 13th Supplement*, p.112.

<sup>67</sup> Bernard Norwood, "The Kennedy Round: A Try at Linear Trade Negotiations," *The Journal of Law & Economics* 12(2), 1969, pp.305-306.

<sup>68</sup> Evans, *op.cit.*, p.236.

<sup>69</sup> Norwood, *op.cit.*, pp.312-313.

<sup>70</sup> *Ibid.*, p.319.

declaration highlighted the continuation of the formula approach, its details were absent. As for agricultural products, a caveat was added stating that the approach “should take account of the special characteristics and problems in this sector,” hinting at difficulties to come.<sup>71</sup>

When the negotiations began, there was a fierce disagreement between the U.S. and Europe regarding the content of the formula. The U.S. advocated uniform reductions, whereas the EC pushed for a system that applied higher reduction rates to items with high tariffs. By September 1977, they had agreed to adopt the Swiss formula, which was the middle ground.<sup>72</sup> In 1978, Japan and Canada joined this intense negotiations on the formula and lists of excluded items.<sup>73</sup> Here, some items were selected for industrial protection and removed from the list reciprocally.

During the final stages of negotiation, even items that had previously been offered concessions larger than the formula indicated were retracted, if the compensations offered by the other side were regarded not equivalent.<sup>74</sup> Initially, these concession balances were calculated using computers. However, in 1979, as the agreement approached and the number of items decreased, delegations began bargaining with portable calculators on the table.<sup>75</sup>

Negotiations in the agricultural sector stagnated owing to U.S.-European disagreements and eventually adopted the traditional request-and-offer approach in 1977.<sup>76</sup> The most critical sector between the two most influential parties under the GATT regime was negotiated with an item-by-item approach.

A defining characteristic of the Tokyo Round was the addition of agreements on non-tariff barriers. The size of concessions and compliance with non-tariff barriers are not as clear as in the case of tariff cuts.<sup>77</sup> Therefore, negotiations often emphasize establishing

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<sup>71</sup> GATT documents, GATT/1134, Ministerial Meeting Tokyo, 12-14 September 1973, Declaration.

<sup>72</sup> Gilbert R. Winham, *International Trade and the Tokyo Round Negotiation*, Princeton: Princeton University Press, 1986, p.201.

<sup>73</sup> *Ibid.*, pp.203-306, 267-272.

<sup>74</sup> *Ibid.*, p.267.

<sup>75</sup> *Ibid.*, p.266.

<sup>76</sup> D. M. McRae and J. C. Thomas, “The Gatt and Multilateral Treaty Making: The Tokyo Round,” *The American Journal of International Law* 77(1), 1983, p.68.

<sup>77</sup> Evans (*op.cit.*, p.315) predicts that in the future, one will inevitably have to judge based on the result of the free movement of goods and factors of production. The rise of result-oriented policies during the Japan-U.S. friction in the 1990s can also be considered as a reflection of the difficulty in measuring the effects of non-tariff barriers.

international rules based on values such as transparency and nondiscrimination.<sup>78</sup> However, even such universal rule-making does not embody perfect general, diffuse reciprocity. The agreements on non-tariff barriers at the Tokyo Round brought obligations and rights only to signatory countries, realizing preferential, specific reciprocity.

The provisional signing of the Tokyo Round Agreement occurred in April 1979; however, many developing countries boycotted participation because of dissatisfaction with the Safeguard Agreement.<sup>79</sup> The number of GATT members remained mostly unchanged from the Tokyo Round negotiations, totaling to 105, until 24 new members joined in 1993 and 1994. Out of this 105 members, the number of countries that had joined the non-tariff barrier codes of the Tokyo Round by the end of 1992 fell under the following categories: technical barriers to trade (39), government procurement (13), subsidies (24), beef (25), dairy products (16), customs valuation (29), import licensing (27), civil aircraft (21), and antidumping (25).<sup>80</sup> As for developing countries, the principle of reciprocity was not mandated as in the previous round. The codification of special provisions, as exemplified by enabling clauses, was introduced. However, many of these nations refrained from adopting non-tariff barrier codes.

Thus, tariff negotiations that were easier to measure were conducted through specific exchanges of excluded items, and agreements on non-tariff barriers, which were more difficult to measure, were treated as preferential agreements among limited members.

### 3.2.3 Reciprocity in Uruguay Round

In the Uruguay Round, the inclusion of new sectors such as agriculture and services trade were the focus, even prior to the negotiations began. Faced with shifts in the industrial landscape, there had already been a debate in the U.S. in 1979 about the need to advance agreements on service trade. However, efforts to initiate a new round of negotiations were met with resistance from developing countries that insisted that textiles and agricultural products be addressed first.<sup>81</sup> In 1986, it was declared that a new round would begin in which

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<sup>78</sup> Hoekman and Kostecki, *op.cit.*, para.2758-2763.

<sup>79</sup> The main issue was the non-discriminatory application of this rule. *Asahi Shinbun*, July 5, 1979, morning edition p.9.

<sup>80</sup> United States International Trade Commission, *The Year in Trade: Operation of the Trade Agreements Program 1992*, 1993, pp.17-18.

<sup>81</sup> The agricultural sector had a lower growth rate and a slower rate of increase in trade compared with the industrial sector. Under the GATT system, liberalization in industrial

services and goods would be negotiated separately.<sup>82</sup> The negotiations, which commenced in 1987, were divided into 15 subgroups.

Tariff negotiations in the Uruguay Round, similar to those in the Tokyo Round, began without a decision on whether to use a particular formula or employ a request-and-offer approach. This impasse persisted without much progress for nearly five years. In 1991, the U.S. pharmaceutical industry reached an agreement with its counterparts in Europe and Japan on mutual tariff abolishment. This led to the introduction of the “zero for zero” approach, which required substantial tariff reductions or eliminations in specific industries, such as construction machinery, agricultural machinery, toys, furniture, non-ferrous metals, and forest products.<sup>83</sup> Reductions were also negotiated in other areas; however, when faced with domestic lobbying groups in each state, governments had to focus on exclusion lists.<sup>84</sup> The negotiations were primarily led by the U.S., Europe, Japan, and Canada, resulting in a package that mutually eliminated or reduced tariffs on the same item, where possible, combined with specific bartering of selected items from different sectors.<sup>85</sup> Although we can observe signs of specific reciprocity by means of product-based discrimination, in the sectors covered by “zero for zero,” there was an element of generalized reciprocity as they aimed for the final goal of zero tariffs, where the required reductions differed across countries.

For agricultural products, tension persisted between the U.S. and the European countries, particularly France. The December 1990 consensus was thwarted by this contention. The deadlock was eventually resolved by the Blair House Agreement between the U.S. and Europe in November 1992. Even as Bush Senior's administration approached the end of its tenure following its defeat in the second presidential race, it applied pressure by targeting France with retaliatory actions over a longstanding dispute about European oilseed

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products took precedence, leading agricultural countries to perceive that they were receiving discriminatory treatment in practice. Gilbert R. Winham, “An Interpretative History of the Uruguay Round Negotiation,” in Patrick F. J. Macrory, Arthur E. Appleton and Michael G. Plummer eds., *The World Trade Organization: Legal, Economic and Political Analysis Volume I*, Springer, 2005, pp.10-11.

<sup>82</sup> *Ibid.*, p.6.

<sup>83</sup> Ernest H. Preeg, *Traders in a Brave New World*, Chicago: The University of Chicago Press, 1995, p.133.

<sup>84</sup> J. Michael Finger, Ulrich Reincke and Adriana Castro, “Market Access Bargaining in the Uruguay Round: How Tightly Does Reciprocity Constrain?” in Bhagwati ed., *Going Alone*, 2002, pp.111-135.

<sup>85</sup> Preeg, *op.cit.*, pp.160-161.

subsidies. This pressure culminated in an agreement.

The Uruguay Round Agreement covered new areas such as investments and intellectual property rights as well as institutional aspects such as dispute settlement procedures and the establishment of the WTO. Predicting the benefits and disadvantages of the agreement was difficult for countries, as in the case with non-tariff measures in the Tokyo Round negotiations. However, in stark contrast to the previous round, the Uruguay Round emphasized the single-undertaking nature of the negotiation, permitting no cherry-picking. Each country was compelled to consider interests in terms of the agreement as a whole rather than individual agreements, sectors, or items.<sup>86</sup> Comprehensive agreements were reached covering non-tariff barriers, agriculture, services, intellectual property rights, and dispute settlement rules, with only four exceptions: beef, dairy products, civil aircraft, and government procurement. Regarding the treatment of developing countries, the degree of rule generalization, such as requiring reciprocity based on the stages of economic growth, had increased.

Reciprocity in the Uruguay Round was analyzed by Finger et al.<sup>87</sup> Although the informal tariff reduction goals in the Uruguay Round were set at one-thirds for developed countries and one-fourths for developing countries, they were not strictly mandated. Considering the concessions each country made and received, the results varied significantly across countries, suggesting that traditional specific reciprocity was not ensured for tariffs. Negotiators from ten countries revealed that although there was an emphasis on fairness and appropriate contributions, none mentioned calculating the difference between the concessions provided and received.<sup>88</sup>

### 3.3 Multilateralism and Preferentialism in Round Negotiations

Although round negotiations are generally understood as a symbol of multilateralism, a re-examination of their procedure and reciprocity along the general/specific axes reveals a surprisingly strong specific tendency.

In the initial Geneva and Annecy rounds, the U.S. approached negotiations with a

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<sup>86</sup> Christina L. Davis, *Food Fights over Free Trade*, Princeton: Princeton University Press, 2003.

<sup>87</sup> J. Michael Finger, Merlinda D. Ingco and Ulrich Reincke, *The Uruguay Round: Statistics on Tariff Concessions Given and Received*, The World Bank, 1996; Finger, Reincke and Castro, *op.cit.*

<sup>88</sup> Finger, Reincke and Castro, *op.cit.*, p.131.

relatively generous attitude, and glimpses of multilateralism were observed. However, once tariff bindings were established for most items, stricter reciprocity was required. Moreover, as items with limited exporting countries became scarce, governments began to explicitly demand compensation from suppliers other than the principal suppliers. If these demands were not met, the original offer was revoked entirely, limiting the scope of reciprocity to items for which all major suppliers agreed to pay back tariff concessions.

The introduction of the formula approach leading up to the Kennedy Round was a move toward general reciprocity without specifying counterparts. However, the preferential nature of the negotiation persisted in the exchange of excluded items, item-by-item barter, and limited participation in formula negotiation. Consequently, the internalization rate of U.S. concessions reached approximately 80% among its major trade partners.<sup>89</sup> In the Tokyo Round, which adopted the Swiss Formula, requests and offers were made based on the formula. However, a significant number of countries neither adopted this method nor joined non-tariff barrier agreements, resulting in restricted participation until the 1990s. Only in the Uruguay Round, where a single undertaking was emphasized, multilateralism became significantly stronger, even if not entirely.

#### 4 Conclusion: Multilateralism and Preferentialism in the International Economy

Concessions agreed upon during the GATT round negotiations were applied equally to all members through the unconditional most-favored-nation treatment. Considering the rules and norms, it appears natural to conclude that these were indiscriminate and multilateral. However, when we focus on the real exchange of values, these “multilateral” agreements skillfully combine product-based and country-based discrimination. They were constructed with a clear intention to funnel concessions one makes to the country that pays compensation. Even though the rules were applied equally, these rules were tailored to realize specific give and take.

However, the agreements exhibited leaks, the magnitude of which was not constant over time. There were periods when it became relatively large; in other words, when general reciprocity was strengthened. The first was the late 1940s to the early 1950s, when the U.S., with its overwhelming power, countered British Imperial Preference, aiming to construct an open international system. During this period, multilateralism was underpinned by the U.S. adopting a generous stance in negotiations because of the necessity of Western economic

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<sup>89</sup> Finger, *op.cit.* p.425.

recovery and fortification against the Communist bloc. The U.S. delegation built the foundation of the GATT regime by refraining from rigorously pursuing specific reciprocity although it was demanded by Congress. The second surge of general reciprocity, although limited in consequence, occurred in the 1960s when they moved toward adopting the formula approach, leading to a certain degree of multilateralism from the Kennedy Round onward. The third instance was institutionalization in the Uruguay Round negotiations and the elimination of GATT à la carte through a strong emphasis on a single undertaking.

These scenarios align with the time when regionalism or preferential treatment spread throughout the world economy. The first instance resulted from the strong commitment of the U.S. to dismantle prewar and wartime bloc economies. By lowering tariffs among all GATT members, the U.S. could diminish the preferential margin, the gap between tariff rates applied among the Commonwealth, and those applied to outsiders. The second and third scenarios followed shortly after efforts toward regionalism became active. The solid line in Graph 1 indicates the number of countries that concluded one or more RTAs after the establishment of the GATT, and the dotted line indicates the cumulative number of RTAs. The number of countries forming RTAs began to surge around 1960, with regionalist initiatives such as in Central America, Europe, and Africa. The establishment of the EEC in 1958 significantly influenced the United States' acceptance of formula method. The third scenario occurred immediately after the acceleration of European integration in the mid-1980s and the global surge in RTAs in 1990s.

Mansfield and Reinhardt argued that round negotiations led to an increase in the number of RTAs.<sup>90</sup> Governments seeking a negotiating advantage in round negotiations have advanced the conclusion of RTAs as an alternative. However, considering the three scenarios aforementioned, attempts at regionalism have always preceded a surge in multilateralism during rounds of negotiations. This suggests a different mechanism by which the non-discriminatory multilateralism of round negotiations was propelled by preferential regionalism movements.

The first two decades of this century witnessed large-scale RTAs driving global trade liberalization, while multilateral negotiations in the Doha Round remain stalled. It appears that multilateralism has been overwhelmed by regionalism and preferentialism, and the mechanism by which regionalism stimulates multilateralism does not appear to be functioning. However, considering that much of the “post-war multilateral free trading system” was

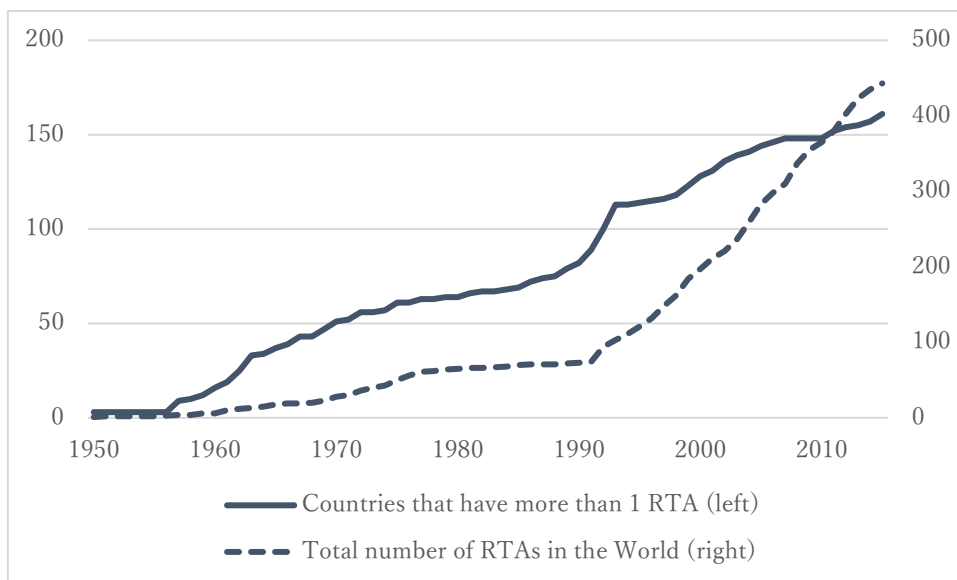
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<sup>90</sup> Edward D. Mansfield and Eric Reinhardt, “Multilateral Determinants of Regionalism: The Effects of GATT/WTO on the Formation of Preferential Trading Arrangements,” *International Organization* 57(4), 2003, pp.829-862.



constructed through preferential procedures, it may be overly pessimistic to conclude that the rise of RTAs is the demise of the liberal order. We need to examine the degree of multilateralism by focusing on the procedures that shape the scope of reciprocity and not simply on the general principles upheld by the institution. The answers may lie in these details.

Graph 1: The Spread of Regionalism



Created by the author based on data from the WTO website.

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