

THE GATT ROUNDS

The nature of the international political economy is found somewhere in the relationship between the state and the marketplace. Yet both the state and marketplace are mechanisms of product, service, and resource allocation. Markets often have much of their structural reality within the state, but they operate independently through economic imperatives of their own, and these market forces have grave difficulties with physical boundaries.

The history of international trade in the modern era is one of contrasting national policies. State policies, even in the days of relative *laissez-faire*, have had a tendency to focus a high priority on national economic development. This means that a strong motivation has existed to limit the competitiveness of foreign goods in favor of fostering native industries. Through most of the eighteenth and nineteenth centuries and into the twentieth, the mechanism for this form of protection was the *tariff*: a monetary tax on imports that increases the cost of goods in relation to internally produced equivalents.

It is true, of course, that tariffs are not used exclusively, not even primarily in some time periods and places, for protectionism. Tariffs have historically been used as an important source of income for governments. This was particularly true in earlier eras before income and sales taxes. As states found these new sources of income, however, the need for tariffs was minimized for all but the poorest. Thus, it is from the nineteenth through the twentieth centuries that the reduction of tariff rates was the premier method for opening national markets to foreign goods. The key to sustaining increased free trade is to maintain balanced benefits in this process, a concept called *reciprocity*—each government gives similar levels of concessions in order to balance the benefits from the agreements made.

This chapter explores the development of an international free trade movement motivated largely by the goal of solidifying peace and spreading economic development and growth across national boundaries by means of multinational negotiations and agreements. In short, it deals with attempts to liberalize markets in a world still dominated by states.

Our focus will be the development of the General Agreement on Tariffs and Trade (GATT) as the early manifestation of and still the foundation document of the WTO. Roger Gilpin, a major international political economy scholar, has said,

"The GATT . . . provided the institutional basis for trade negotiation in the postwar [World War II] era."¹ Yet others note that the GATT lacked institutional integrity and acted fundamentally by means of a series of negotiation conferences that set *codes* (principles of action), but without an enforcement arm.² In fact, the GATT was rather weak as an international organization anchoring its worth on the setting of codes, voluntary compliance, and providing continuity for negotiation forums. At base the GATT was really not an international organization at all since its foundation legal documents were intergovernmental agreements by definition, lacking in formal enforcement structures rather than the more binding agreements set by treaties.

Nothing of the magnitude of the GATT can exist only on paper, however. It either falls apart and dies, exists but becomes moribund, or can "over the four decades of its existence . . . evolve into a de facto world trade organization."³ The evolution of the GATT could not progress with only a skeletal structure and a voluntary code of conduct. There would arise an inevitable point when the GATT would have to reform or lose momentum in its quest to establish a secure global free trade environment.

That point came in the 1990s when the combination of (1) the collapse of the Soviet empire (ending the Cold War); (2) the increased integration and effectiveness of the European Union (EU); (3) the rise of multiple competitive world trading states, including the Newly Industrialized Countries (NICs); and (4) the relative decline of American hegemony simply demanded a stronger trading system. The resultant WTO was designed to be the core of that system.

The purpose of this chapter is to provide a condensed overview of the four-decade-long development of the GATT as it approached its transformation into the WTO. In pursuit of this story, this chapter will (1) outline the conditions of world trade up to the postwar formation of the GATT; (2) survey its early rounds of successful tariff reductions; and (3) examine the increasing complexity of the GATT by exploring the transforming Dillon, Kennedy, and Tokyo Rounds.

Note during this narrative that each time the GATT contractors felt the need for increased expansion or expanded influence, they called for negotiation sessions that were called *rounds*. The early rounds were single sittings of negotiations among GATT participants; they were in essence a single meeting in the same place over a short period. Later rounds each consisted of an extended series of negotiations with several meetings over a period of years. Each round lasted longer than the previous round, as each attempted to subdue increasingly complex issues and mechanisms of trade protectionism.

THE ENVIRONMENT THAT CREATED THE GATT

The General Agreement on Tariffs and Trade was an integral part of the reformulation of the international environment fashioned after World War II—largely through U.S. leadership. It was planned to act alongside two other multinational

agreements that were attempts to establish an order for the world economy. Combined, these were to be known as the Bretton Woods organizations—the World Bank and the International Monetary Fund. While not specifically linked to the other two in the end, the mechanism that was to become the GATT certainly was conceived at the time as an equal partner.

The important thing to establish at this point is that U.S. policy was at the center of the formation of the postwar economic system for the noncommunist world. The end of the war found the United States with the only intact industrial economic infrastructure. All other major world trading states were in ruin wholly or in major parts. American *hegemony* in this period came not just from its political, military, and nuclear superiority, but also from its economic dominance. The United States accounted for half of the total economic output in the world at this time. It is not unreasonable, then, to discuss the state of the world trading system leading up to the formation of the GATT from the perspective of American policies.

Alfred Eckes begins his book on American foreign trade policy by stating that “from colonial times the ‘Spirit of Commerce’ has inspired and shaped America’s relations with the world.”⁴ Even though George Washington’s farewell warning of “foreign entanglements” led the way toward a political and psychological isolationism, on the whole, early America believed in free trade because it needed to have the markets of Europe open to its goods (particularly agricultural goods, an interest that persists in U.S. policy to this day). Eventually, the free trade tendencies of early American policy had to be compromised because of the political strength of domestic industries that demanded protective tariffs. By the end of the nineteenth century, half of all imports went untaxed, but the other half saw targeted duties aimed at competitors to import-sensitive U.S. manufacturers. A series of bilateral agreements were made with major trading partners on the basis of reciprocity, but more often than not these agreements were a result of U.S. pressure. High tariffs brought protection, but sometimes with the cost of some alienation from major partners. Clearly this would not do in the long run.

Trade developments mirrored the success of political parties that championed competing ideas on trade policy. The Democratic Party had a strong tradition of freer trade policies going back to the 1840s. It saw tariffs as a revenue-only device. From the 1860s to 1934, the Democrats and the muckraking press attacked Republicans for bowing to corrupt import-sensitive industries to maintain high tariffs. From Lincoln to Hoover, on the other hand, the Republicans believed in the use of targeted duties to encourage economic development by protecting domestic industries. The policy seemed to have succeeded along with the Republican Party’s electoral fortunes; it succeeded not only as the dominant policy, but also as a spur to development. As a result, U.S. GDP grew significantly faster than free market British GDP from the 1870s up to World War I.

This is particularly interesting given today’s arguments over the effect of protectionist national policies. Poor countries proclaim that they need special protection for their emerging industries. Thus, they argue for, and to some degree obtain,

pledges of special dispensation from trade codes that preclude or minimize high tariffs. A strong argument can be made that these very same protectionist tariff policies enabled American industries to develop and prosper in the forty years spanning the nineteenth and twentieth centuries. The same can be said for protectionism in much of Europe at the same time, particularly in Germany and Russia, each of which demonstrated high tariffs alongside high domestic growth. In Asia, even more drastic efforts at national protection took place, particularly in Japan. However, it should be remembered that foreign trade remained a relatively small part of the economies of major states at this time—less than 10 percent for the United States well into the late 1940s.⁵

At the turn of the century, Congress closely controlled trade policy, limiting flexibility on the part of the executive.⁶ Disillusionment with Wilsonian internationalism, including a significant movement toward liberalization of trade policy, led Congress and the country toward more restrictive trading policies from the 1920s to the early 1930s. The free trade Wilson administration had gone too far. The reaction brought Republican victories that brought a period of success for protectionism.

The most protective period in American history happened during the time between the Forney-McCumber Act of 1921 and the Smoot-Hawley Act of 1930 (the congressional reaction to the Great Depression).⁷ Though it increased protectionism, the Forney-McCumber Act also shifted some important responsibilities for trade policies directly to the president. It allowed the president for three years to unilaterally retaliate against any unfair foreign trade practice. He could place penalty duties on goods or even exclude goods from countries he found discriminating against American exports. This resulted in an emphasis on bilateral trade negotiations with exclusive reciprocity (deals that affix only to the signatories, excluding other countries) rather than providing an opening for multilateral trade negotiations (MTN) that would give favorable reciprocity to all traders, as Wilsonian Democrats wanted. Of some interest for today's WTO debates is the fact that this act also placed protections for intellectual properties in the hands of the administration.

The State Department opposed any aggressive use of the act, however. Its primary concern was in the political arena, and it felt that aggressive trade protectionism made it harder to further American political interests.⁸ This was to begin a pattern of trade enforcement views the State Department would maintain well into the 1970s.

As it turned out, the Smoot-Hawley Act played the part of the enduring protectionist villain. It has been blamed for the rise of fascism, of radicalism in Japan, and thus for planting the seeds of World War II. Forever after, it has been pointed to by free trade advocates as the prime example of the harm done by trade barriers. Critics claim that this act created a domino effect in international trade—state after state retaliating with their own “beggar thy neighbor” protectionist policies plunging the world into deep depression and war. Others claim, with some justification, that the act's tariff levels were no higher than earlier bills, but that it was the environment that doomed its application. The economic situation of the time was, to be sure, complex with many elements converging to make for disaster. The Smoot-Hawley

Act, whether culpable in and of itself or not, had become the symbol of counterproductive trade policies.

If it did nothing else, however, the act stimulated reformers to begin to plan for free trade reform. Chief among these reformers was Cordell Hull working early in the 1930s with a group of second-line foreign service officers in the U.S. State Department. Hull associated free commerce with peace. He became a significant advisor to and secretary of state for President Franklin Roosevelt. As Democrats came to control Congress and the presidency after 1932, their traditional free trade outlook combined with Hull's tireless leadership to produce a significant change in U.S. policies. The first thing Secretary Hull did was navigate an "emergency" program through Congress that would bring about the most important change in the "institutional history of U.S. trade policy": the transfer of policy power from the Congress to the executive on a more permanent basis. Hull consequently passed this power on to a group of technocrats.

The Reciprocal Trade Agreement Act of 1934 (RTA) granted to the executive the right to raise or lower tariffs by as much as 50 percent from the 1930 levels. Hull used this act to establish an interdepartmental Committee on Trade Agreements (CTA) to administer a policy of both bilateral reciprocal agreements and multilateral trade agreements. This secretive group (even Congress did not know its composition for some twenty years) set the basis of U.S. policy on trade. Trade policy was taken out of congressional politics, which had limited its flexibility, and into the realm of free trade technicians.¹⁰

Earlier reciprocal agreements had limits set on them by Congress; they tended to be extortionate in tone. The CTA would expand agreements so that bilateral agreements would apply to all trading states that did not discriminate against American products in each area of agreement. Quickly, the United States made multinational trade treaties with some forty-eight nations.¹¹ These policies led in a direct line to the trade environment of today.

THE ITO AND THE FORMATION OF GATT

Parts of international trade theory postulate that trade liberalization should be a smooth process when there is a hegemonic state driving the process, and this was the role played by the United States after World War II. Indeed, at a seminal conference in a small New Hampshire town in 1944, the United States, Canada, and Great Britain led the way in establishing what became known as the Bretton Woods System. Following the lead of British economist John Maynard Keynes, these war victors searched for a balance between the interests of states and the need for a stable international marketplace by establishing what was to become known as "embedded liberalism."¹² States were to pledge themselves to liberal economic policies, retaining control over domestic economies but agreeing to participate in multinational agreements for collective coordination of the international political economy.

The result of the conference was the Bretton Woods System. It “was based upon three pillars: economic development, monetary stability, and trade.”¹³ The World Bank supported the first pillar, the International Monetary Fund the second, and an International Trade Organization (ITO) was to be formed to support the third.

In September of 1945, America sent a proposal to Great Britain based on a State Department publication entitled “Proposals for the Expansion of World Trade and Employment,” closely following a 1937 secret memo written by Leo Pasvolosky of the Hull State Department group. It outlined three basics of American policy: (1) use tariffs as the major trade regulator (thus minimizing nontrade barriers), (2) lower tariff rates, (3) establish an unconditional most favored nation (MFN) principle.¹⁴ Discussions to perfect this view continued in the bowels of the State Department from 1943 to 1945. A fourth principal was added to place a ban on most quantitative restrictions on imports.¹⁵

These discussions, transmitted especially to the United States’ British partner, became the basis for negotiations for an international trade policy.¹⁶ There were some compromises made for European countries to allow for some quantitative barriers to trade and for the United States to recognize its already healthy agriculture supports system. The United States also insisted on an escape clause “to permit countries to take temporary action to prevent sudden and widespread injury to the producers concerned.”¹⁷ Significant loopholes in the system, you will note, were envisioned from the very beginning. Still, the United States was committed to multilateral negotiation on freer trade. As early as 1945, the United States used its foreign aid resources as a means of gathering commitments to nondiscriminatory trade from Great Britain, Belgium, Czechoslovakia, France, Greece, the Netherlands, Poland, and Turkey.¹⁸

In 1946 the UN Economic and Social Council (ECOSOC) convened a conference in London to deal with the international trading order. The Smoot-Hawley Act was a still-potent motivator of this conference pushing most major trading states to reinvigorate trade in the postwar era on the foundation of free trade assumptions. Objections continued, of course, to the application of broad principles that might in any way negatively impact specific national interests. The necessity for loopholes to accommodate these interests was compelling. Most exceptions to general codes were aimed at protection of domestic industries and protecting the balance of payments in major European countries. Momentum was building for an international trade agreement, a broad one if not a perfect one. And the United States came to champion the creation of an International Trade Organization as the third pillar of institutionalized stability in the international political economy.

A charter for an ITO was drawn up at a Geneva conference in 1947 and presented at another UN sponsored conference (UN Conference on Trade and Employment) held in Havana in 1948. Building on the series of negotiations from 1943 to 1947, fifty-seven countries signed the charter and proceeded to submit it to their respective ratification processes. The U.S. negotiator, Will Clayton, had made several concessions to gain charter approval. He acceded to language that seemed to

allow expropriation or nationalization of foreign property under “just” circumstances. He also compromised on the use of import quotas under certain circumstances and on voting rules within the ITO. The latter was remarkable given the American hegemonic position, for the United States agreed to a one-state, one-vote system for decision making in the ITO. Unlike its UN stance, it was willing to give up its veto powers. The assumption was that American power and general agreement on a consensual decision-making environment would not make this concession significant.¹⁹

On the whole, the charter gave the ITO “broad powers to regulate tariffs, quotas, labor standards, investments, monopolistic practices, and commodity prices.”²⁰ Granted that language in some sections specifically defined several loopholes and an escape clause, this represented a significant transfer of power to a multinational organization. And exactly because of that it would be difficult to pass through the legislatures of major countries.

This was to prove especially true of the United States. Few thought that any ratification from Congress would come easily; there were too many controversial elements within the ITO charter. The question of giving up sovereignty to an organization run on principles of equality of input alone would be daunting in postwar America. Even free trade supporters like the National Foreign Trade Council opposed the ITO treaty. Besides, the Cold War was heating up, displacing attention toward military and political affairs. The State Department was losing credibility over the supposed “loss of China” to the communists. The Marshall Plan also gave the Americans the feeling that they had a right to demand a more independent role in international economic affairs since they were paying for it.

If the ITO was an American idea, so was the creation of an interim set of agreements to jump-start an immediate lowering of tariff barriers. This urge had been a general one among major traders, so specific negotiations to this end had begun at the 1947 Geneva meeting. In Havana, the delegates finalized an alternate document that was to serve as an interim agreement until the ITO came into being. In fact, this agreement was made even before the conclusion of the ITO negotiations and did not depend on the successful conclusion of the ITO treaty for implementation. This significant document was the GATT.

The GATT was to emerge as the fundamental document guiding international trade relations for most of the rest of the century. It was signed as a temporary measure on October 27, 1947, to go into effect on January 1, 1948. Such a measure could not become immediately operational if it were in treaty form, of course. This meant that the document had to be worded in such a way that it would not require the approval of the U.S. Congress. The mechanism for its legitimization for the United States was the Trade Agreements Act of 1934. This act, you will remember, allowed the president to unilaterally make agreements on the lowering of tariffs as long as they contained reciprocity for American goods.

The U.S. Senate could not muster the two-thirds vote to approve the ITO treaty, and since President Truman became increasingly involved with the war in Korea and

could not expend the energy needed to get the treaty passed, the treaty was quietly withdrawn in 1950. The ITO was never to see the light of day again.

GATT PRINCIPLES

The core document of the GATT outlined principles and procedures but had no organizational framework. There was a small administrative bureaucracy, expanded and made permanent in 1951 and then augmented with a Council of Representatives in 1960, but neither had powers to enforce tariff and nontariff barrier commitments within the document. The only additional structural element dealt with the processes of decision making and governance by signatories themselves—which were incidentally called “contracting parties” instead of members because there was no formal organization of which to be a member. Only with the WTO treaty in 1995 did the GATT agreements become part of an international organization with formal membership.

The founders of GATT were interested in broad-based principles of fair and *freer trade* (not completely *free trade* since they institutionalized many exceptions to free trade). But they were also convinced, as Secretary Hull was, that the interdependence that came with integrated trade agreements reduced the risk of war. The preamble to the GATT spells out the central concerns. It says the founders “recogniz[e] that their relations in the field of trade and economic endeavor should be conducted with a view to raising standards of living, ensuring full employment and a large and steady growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods.”²¹ Within these broad goals, specific tariff reduction and elimination of discriminatory treatment in trade were the immediate targets.

Two things emerged from the GATT agreement. First of all, the agreement spelled out a series of principles that were to guide the contracting partners. These were not legally bound within an organization; therefore they were designated “codes of conduct” or simply “codes.” Second, the states signing the agreement (twenty-three in 1947–48) made a series of specific binding agreements to lower particular tariffs.

There are four driving core principles that are the foundation of the GATT agreement: (1) nondiscrimination or the most favored nation principle, (2) tariff reductions and binding, (3) national treatment, and (4) prohibition of protective measures other than tariffs (with exceptions).

MOST FAVORED NATION

Article I of the GATT provides for this basic concept. In trade arrangements, states make agreements with other states regarding the conditions under which they will trade specified goods with each other. This principle states that any agreement in which one contracting partner grants another country “more favorable treatment”

(meaning they receive the best deal offered in that category) requires that state to immediately and unconditionally give the same treatment to imports from all signatories to the GATT. This is called nondiscrimination because GATT partners cannot sign agreements that favor nonsignatories over signatories or some signatories over others.

Note that what this principle does is broaden the access of goods to markets in a sweeping manner on the basis of bilateral negotiations. If the United States makes a deal with Russia that lowers the tariff on vodka, that tariff rate must be made available to all importers of vodka—Polish, Finnish, or whoever, if they belong to GATT. Since there are literally tens of thousands of goods traded in the international marketplace, it would be a nightmare to negotiate freer trade positions with each country on each product. Most favored nation treatment becomes the touchstone for lowering tariffs on huge numbers of goods by way of singular negotiations. Multilateral negotiations might also be involved with some products, but even then there is no need for universal participation by GATT signatories in order to allow each to benefit from the deal made.

This MFN, or nondiscrimination obligation, applies to all facets of trade, including customs duties, charges of various types and kinds that are connected to importing and exporting, as well as any internal policies affecting the valuation of an import or export. This includes any taxes or charges a state may wish to levy, as well as any licensing and regulatory policies.²²

TARIFF REDUCTIONS AND BINDINGS

Fundamentally, this principle concerns transparency in national trade policies. Countries undertake commitments to openly state their maximum import duties or other regulations or barriers on specified types of goods. There are to be no hidden rules, practices, or agreements. Trade policies are to be reported to GATT and these reports distributed through GATT internationally.

These commitments, often referred to as “bindings,” can come about from bilateral or multilateral negotiations where a country agrees to adjust its tariff policies or practices. Through MFN these agreements become applicable to all GATT signatories. You begin to see how GATT becomes a major conduit for the expansion of equitable and fair treatment of products across the international political economy.

Early in the GATT process, developing countries shied away from this code because they often did not have a schedule of bindings on any of their goods. The concept of reciprocity limited or prevented these countries’ participation in GATT until they were given specific exceptions to this rule—thus the limited number of original signatories (twenty-three in Geneva/Havana). The Kennedy Round of negotiations in 1967 gave special status to developing countries so they would not have to follow all of the disciplines of GATT. As we will see, this became a problem when some of the previously developing countries, the NICs, became effective competitors to the major trading states in several sectors.

NATIONAL TREATMENT

This code compliments the MFN rule by extending the equality of treatment of imported goods to the domestic marketplace. Not only is there a guarantee of equality of treatment as goods come into the country, but the principle applies to what happens to the goods while in the distribution process internally. National treatment means you must treat foreign goods the same as domestic goods once they have crossed the frontier and satisfied the obligations accompanying entry into the domestic market. You cannot put taxes or regulations on imported Japanese cars that do not apply equally to American cars.

Clearly, the GATT principles prefer tariffs as the singular control mechanism of states to regulate international trade. Protection of the domestic industry or supplier should only be given at the frontier, not after the goods enter the domestic marketplace.

PROHIBITION OF NONTARIFF BARRIERS

This principle has proved to be a bit more problematic. The tariff code principles in Part 1 of the agreement are articulated, even though several exceptions are specified as well. Since tariffs are preferred as the protectionist mechanism, then other means should be barred. The GATT does try to eliminate steps other than tariffs in Part 2 of the agreement. For example, quantitative restriction on imports and exports are generally banned by Article XI of the agreements. Indeed, most of Part 2 of the agreement attempts to discourage such nontariff measures as custom regulations, import licensing, direct subsidies, and antidumping duties.²³

But safeguard exceptions (claims by states of the need for special protections or *safeguards*) are included in the article to allow contracting partners to protect their economies. Thus, specific broad areas allowed for protection include the right to adopt measures to protect a country's ability to feed itself and measures used to shield industries in danger of collapse, to defend against dumping, or to attack balance-of-payments problems. The most frequently used of these loopholes has been the balance-of-payments clause, as its language is sufficiently vague to allow countries with trade imbalances to easily use it as an excuse for protectionist measures.

Besides the Article XI safeguards, the agreement recognizes exceptions for Britain's special arrangements with its former colonies as well as, importantly, an exception for trade agreements permitting common markets and free trade areas to act collectively toward the outside, while granting special relations within the pact. In the beginning, the United States accepted this latter arrangement because it wanted to encourage the formation of the European Coal and Steel Community as a means for postwar European recovery on a cooperative basis. As time went on, the exception expanded in recognition of the special conditions created by the formation of the European Community (which evolved into a singular trading area under its revised EU charter).

A couple of points must be made before we continue on to a description of the various rounds that expanded or redefined the GATT. Parts 1 and 3 of the GATT agreement were meant to be strictly adhered to by the contracting partners. States were to buy into these principles without reservations. Many elements of Part 2, however, provided a great deal of wiggle room within the subsequent Protocol of Provisional Application (PPA), the operational document for the GATT agreement. Part 2 asks signatories to implement “to the fullest extent not inconsistent with existing [national] legislation.”²⁴ This became the ultimate loophole for states, particularly allowing them to avoid nontariff barrier discussions in the early rounds of GATT negotiations. With little in the way of enforcement capability, states could interpret on their own what “inconsistent” would mean in specific circumstances. The PPA had a “grandfather clause,” for example, which allowed states that had contradictory laws already on the books to continue to apply them. You can see why early GATT success came mostly in the area of tariff reductions. Still, it is important to realize that these successes were dramatic.

TARIFF REDUCTION ROUNDS

The twenty-three states that signed the core protocol negotiated in Geneva and finalized in Havana pledged themselves to the codes of conduct described above. This was not the end of the negotiations, however. These states, essentially the industrialized OECD (Organization for Economic Cooperation and Development) members, were serious about tariff reductions and did not just want to establish some principles; they also wanted to negotiate substantive reductions on specific goods. The GATT turned out to be an extended and long agreement because it expanded on its base principles by inclusion of numerous bilateral and multilateral agreements between states to reduce tariffs on specific goods. The end result was a web of some two hundred amendments and additions to the GATT by states making specific tariff reductions on particular goods. States were not bound to participate in all or any of these side agreements, but the agreements became part of the GATT system. By this method, the Geneva Round brought concessions through item-by-item negotiations on some forty-five thousand tariff lines covering about half of world trade: “The GATT Accords, therefore, are a cluster of treaties, codes, side agreements, and understandings with varying members and coalitions of members participating in each.”²⁵ It is fair to say that some of these might even be interpreted to contradict or be in conflict with the basic code.

Given the nature of the MFN provisions, this process significantly spread the lowered tariffs between contracting partner states. The results were dramatic in this first round; for example U.S. tariffs received an average reduction of 21.1 percent. Results were not so impressive from the following three rounds of negotiations, all of which concentrated on fine-tuning tariff relationships and lowering rates. These rounds were designed to admit new partners and to increase pressures for tariff

reductions. All three rounds, Annecy (France) 1949; Torquay (UK) 1950–51; and Geneva 1955–56, were single sitting rounds.

In Annecy, six countries joined the GATT and entered into several of its side agreements. However, not much progress was made; average reductions were modest. The British Commonwealth as well as Western Europe simply refused to address many protectionist tariffs: “Economics took precedence over diplomatic strategy.”²⁶ At Torquay, the British wanted a one-sided agreement to protect its empire, and this again kept significant across-the-board progress from occurring. Though reductions were minimal, three new countries joined, and 8,700 tariff concessions were made among partners, mostly in marginal products.

The second Geneva Round took place in the shadow of American bilateral concessions to encourage the emerging Japanese export economy. Though the Geneva GATT agreements added one country, its tariff reductions were modest for all. Average U.S. reductions were only 3.5 percent, but the United States had already made an unbalanced agreement with Japan that would eventually reverberate within domestic politics. The major trading states had reduced their weighted average tariffs to 15 percent by the mid-1950s, however. And they benefited greatly from the subsequent large increase in total international trade.²⁷ Trade grew faster than the average GNP; the figures for 1950–75 showed an average 8 percent increase in world trade as opposed to an average 4 percent increase in GNP—that trend was to continue into the 1990s. Yet some sectors of the U.S. economy were being hurt by cheap imports. Chief among these were large employers like textiles, steel, and automobiles.

During the last years of the Eisenhower administration, political pressures began to grow for protection of import-sensitive industries. Though Eisenhower himself seemed to be aware of this, the administration and its State Department continued to make Cold War politics the higher priority. Between the 1930s when the Reciprocal Trade Agreements Program gave the president great discretion in making tariff reductions and when Eisenhower left office, U.S. tariffs had been reduced by 80 percent.²⁸ Containment of communism as a priority policy had targeted the recovery of Western Europe, the integration of World War II enemies into the international economy, and the denial of technology to the Eastern Bloc. Trade’s role was to be the vehicle for these political/strategic goals. Since international trade was only 4 percent of U.S. GNP, the U.S. government thought that the encouragement of imports was an easy way to help its friends without having to resort to extensive direct foreign aid.

The tariff reductions in the first four rounds of GATT negotiations came relatively easily. Nontariff barriers (NTB) were slowly growing throughout the world, however, and the United States’ relative open-door policy began to chafe on American politics. The world was taking advantage of U.S. policies by raising NTBs while U.S. policymakers preferred in these early years to ignore the violations of NTB rules embedded in Part 2 of the GATT.

THE DILLON ROUND (1960–61)

The United States called for the Dillon Round (Dillon was under-secretary of state and originated the idea) as a means of dealing with the trade repercussions of the formation of the European Economic Community (EEC). Although the GATT allowed for regional organizations and exceptions for their united trade policies, the EEC was getting more aggressive in its external tariff policies. Furthermore, the planning for its highly subsidized Common Agriculture Policy (CAP) began to put American agricultural exports in some peril. Agriculture, an original GATT exception, raised its cumbersome head. And it proved to be too difficult a subject to be successfully dealt with.

Bilateral negotiations between the United States and the EEC were augmented by multilateral negotiations in the larger environment of this GATT round. There were thirty-nine countries in the GATT by now, and the Dillon meetings facilitated modest tariff reductions covering 4,400 goods. These were to be the last of the relatively easy areas of reductions. Further progress needed to attack products more central to national incomes.²⁹

President Kennedy was eager to salvage the Dillon Round, so he agreed to waive limitations on a number of import-sensitive items and to let agriculture lie. Interests hit by this action such as steel, machine tools, firearms, and woven fabrics were furious. Trade Commission findings of concessions on specific goods noted that a legal peril point had been crossed. Congress established peril points as tripwire demarking points for American producers when trade threatened their industries. These findings were ignored. In addition, Kennedy had simply acquiesced to the new EEC discriminatory Common Agriculture Policies, angering even his own Agriculture Department.³⁰

The State Department's policy favoring Cold War politics over trade convinced Kennedy to end the Dillon Round, leaving a stalemate with the EEC. Domestic U.S. interests were not pleased, nor were key members of Congress. Trade liberalization as the thrust of U.S. policy in the postwar era was increasingly coming under fire. Economic interests and Congress were tiring of U.S. concessions being met with nationalist policies from Europe and Japan while American Cold War perceptions and priorities continued to guide trade policies.

THE KENNEDY ROUND (1963–67)

The bill that authorized American participation in the Kennedy Round, the Trade Expansion Act, was passed in January 1962. The authorization to negotiate was for a five-year period. It envisioned a strategy to improve "free world" access to U.S. markets and to get access to Europe's agricultural market. The act gave the president the ability, for the first time, to slash duties *across the board*, rather than product by

product, in conjunction with the other OECD countries. Flexibility and a residue of Cold War goals dominated thought behind the bill. Still, there were compromises. Congress demanded that all nontariff agreements required congressional approval.

Even more importantly, the bill took chief responsibility for trade negotiations away from the State Department and gave it to a newly created Special Trade Representative (STR). The president still had the final say, and the bill gave him broad powers in tariff areas, but trade now had an independent voice within the administration. U.S. negotiators for the first time had no other responsibilities in the area of foreign relations; trade could stand on its own within the administration in the struggles over policy. This round produced some significant tariff reductions, but its main importance was to come in redirecting the GATT negotiations toward nontariff barriers and the accommodation of developing countries' special needs.

Item-by-item tariff reductions had proven to be increasingly burdensome as a means for tariff reductions. The OECD countries agreed to a strategy of an across-the-board formula of reductions, at least for industrial products. This change allowed negotiations that produced a tariff reduction of 36–39 percent on sixty thousand products. Duties were slashed on some 64 percent of dutiable goods, concentrating on those items in which Europe and the United States accounted for 80 percent of world production. The largest cuts, 80–93 percent, were in machinery and transportation equipment, while chemicals, iron, steel, and textiles saw lower reductions.

We need to point out that agriculture was left, as it had been from the beginning, to item-by-item negotiations, negotiations that proved to be limited in their success. Tropical products (coffee, tea, cocoa, bananas, and oil seeds) were but slightly touched by tariff reductions. Nontropical products did not do much better. Average agricultural tariff cuts were only 20 percent—with several exceptions. Special negotiating groups had been set up independently to deal with dairy products and with meat. The Kennedy Round itself could not penetrate these protected areas.³¹

Though the new President Lyndon Johnson was a devoted free trader, he became increasingly pressured to take more seriously the operationalization of reciprocity within the GATT agreements. The United States had given up too much for too little in return, it was argued. On top of this, increased opposition to further concessions came from not only Republicans in Congress but some Democrats as well. These concerns along with escalating quarrels with Europe contributed to the elongation of negotiations.

By 1967, congressional authorization was running out, domestic legislation dominated Johnson's priorities, and Vietnam was taking center stage. Europe was refusing compromise on agricultural access, and Japan was stonewalling on access to its markets. A decision had to be made on the Kennedy Round negotiations. Fearful of cascading protectionism, Johnson gave in and signed the agreement. The 1962 authorization gave the administration complete discretion in negotiating the round, but this was to be the last GATT negotiation that did not need to go before Congress for approval.

There were significant successes besides the tariff cuts. Nontariff barriers were opened for the first time to serious discussion; though not much progress was made, the cat was out of the bag. In one area, *antidumping* (the selling of goods below domestic or production costs, flooding a market with cheap goods), a specific code was negotiated. It pledged contracting partners to specific antidumping rules, though domestic political opposition in America, even to the point of congressional legislation, kept this code from being effective in the short run.

The question of what to do with the problems of developing countries was also raised at these negotiations. The explosion of new states as a result of the collapse of colonial empires brought renewed emphasis on these issues. Few of the problems were solved, but three articles were added to the GATT basic agreement in 1965, becoming Part 4. These allowed for special treatment and protectionist exceptions for developing countries. Fundamentally, Part 4 waived the rule of reciprocity in negotiations between less developed and developed states. This encouraged more states to join the GATT; the number reached forty-five during the Kennedy Round with an additional twenty-nine shortly thereafter. A subsequent 1971 General System of Preferences document was added to these agreements to help the poorer states.³² It would take a couple of decades, however, before significant general tariff preferences would be given to developing countries by industrial countries. Only in 1974 did the United States establish even this possibility into its law.

"Developing countries" was not well defined in the new Part 4, and the agreement allowed for many unbalanced tariffs. It even permitted Newly Industrializing Countries (e.g., South Korea, Singapore, Brazil) to use NTBs, which they did successfully, to protect and support specific sectors of their economies. Subsequently they used these sectors to enter and compete in markets in Europe, North America, and eventually even Japan. Consequently, developed states began complaining that the NICs were unfairly using the vagueness of the GATT's wording and various developing country exceptions to unfairly compete against them.

Europe, Japan, and some developing countries came out of the round with some advantages. The United States was hurt in several areas, particularly in its inability to open markets to its agricultural sector and to stem the flow of imports that increasingly created balance-of-payments problems. Even though the average tariff for all products entering industrial nations was down from around 60 percent in the 1930s to 6.2 percent after the Kennedy Round, sectoral differences remained. For example, finished manufacturing goods were only down to 9.4 percent.³³ National differences remained as well; the United States had lowered its tariff on automobiles from 6.5 percent to 3 percent, while Canada, the EEC, and Japan all kept theirs at 10–15 percent.³⁴ These variations resulted in a backlash in the United States against trade liberalization.

In the 1968 U.S. presidential elections, both candidates pledged remedies for ailing industries, including an attack on nontariff barriers and the imposition of import limitations. The victor, Richard Nixon, was no friend of the GATT. The U.S. Trade Commission, moribund for years, began to recommend use of the GATT

escape clauses to give relief to industries that brought complaints before it—and Nixon paid attention to these reports. Trade laws were enforced more under his administration than ever before. Congress had become more aggressive as well, willing to give Nixon more retaliatory authority in the growing trade conflicts with Europe and Japan.

THE TOKYO ROUND (1973–79)

To this point in time, “The Kennedy Round was the high point of the postwar movement toward trade liberalization.”³⁵ By the early 1970s, however, unsettled long-term problems combined with new short-term unfair trade practices left GATT vulnerable. Patrick Low and others provided a long list of developments that had the tendency to weaken support for the GATT: The 1955 waiver the United States gained for its agriculture subsidies, thus the basis for removal of agriculture from GATT negotiations; sectoral protectionism, for example the development of the 1973 Multifibres Arrangement; extra legal import charges increasingly used by the United States and Europe; EEC exceptions being accepted without challenge; special colonial/post-colonial state relations with European powers; creation of free trade areas to avoid GATT disciplines; increased bilateral “voluntary” quota agreements; Nixon’s use of protectionist retaliatory measures.³⁶ The Multifibre Arrangement proscribing textile flows was particularly damaging because of textiles’ centrality to many states’ trade and because it set a precedent for cartel-like agreements in areas like steel, shipbuilding, and automobiles. Patrick Low would add to this list the intriguing observation that the success of GATT in lowering tariffs had encouraged countries to search out evasive nontariff barriers to exploit.³⁷

When, in February 1972, the European Community (EC) publicly declared an interest in a new round of multinational trade negotiations, the United States and Japan agreed. A call went out to join a GATT Ministerial Conference in Tokyo in 1973 that attracted the bulk of the world’s trading countries. The negotiations were to cover tariffs, nontariff barriers (with specific attention to the safeguard system) in manufacturing and in agriculture, tropical products, and codes for preferential treatment for developing countries. This round of negotiations was to be a substantial one, at a minimum, dealing with trade problems in a more sweeping manner by use of the more efficient across-the-board approach. In the end, ninety-nine countries representing nine-tenths of the world’s trade participated.³⁸

The Tokyo Declaration, the formal call for the round, envisioned final agreements by 1975, but negotiations were slow to get started, delayed along the way, and complex. Consequently the round of negotiations lasted until 1979. Once again, as with most postwar trade negotiations, the key to decision making during this round centered around the virtually bilateral relations between the EC and the United States. Japan, the third major trading power, was relatively passive. The nine members of the EC had a difficult time developing a unified negotiating position. The entry of the United Kingdom (UK) into the EC (1972) and France’s resistance to

further concessions within EU decision making complicated the process. It took until February of 1975 before an agreed-upon directive could be approved to guide the EC negotiators.

Also, "developing country strategy became more concerted and strident in the Tokyo Round."³⁹ Newly Industrialized Countries (NICs) had increased their impact on international trade, and the United Nations Conference on Trade and Development (UNCTD), created in 1964, gave a united, though external, political voice to developing states in the GATT. The Tokyo Round would find developing countries' efforts concentrated on gaining promised trade concessions from the rich states.

The process of gaining authorization to negotiate further trade agreements was not easy in the United States either. Antiliberalization forces continued to gain strength, and the Nixon administration had plunged the political system into chaos over the series of difficulties called the Watergate scandals.

The political weakness of the presidency left room for Congress to put significant restrictions on the Tokyo Round negotiations. Congress was not about to make the mistake it had made when it gave carte blanche to the president in negotiating the Kennedy Round. This time there would be assurances that Congress, and indeed many sectors of the U.S. political economy, could play an active role in the negotiation process.⁴⁰

Nixon's initial 1973 authorization proposal to Congress asked for broad authority to negotiate tariff reductions, which had become a traditional part of the GATT process. Congress had little problem with this. It was in the arena of nontariff barriers that Congress, especially the Senate, was cautious. The Senate did not want to give to the executive what it perceived to be its constitutional responsibilities over foreign trade legislation. In turn, the Republican administration wanted to guarantee foreign powers that they could negotiate in good faith without finding domestic opposition at the end of the process. Compromise was necessary.

A complex consultation system was established to keep Congress and major trade constituencies informed throughout the negotiations. Members of Congress joined negotiation delegations, and key committees were periodically briefed. Private sector committees, twenty-seven in total covering a variety of industry sectors, were created under an umbrella organization called the Advisory Committee for Trade and Policy Negotiations. It was to give an advisory opinion on the final product of the negotiations.⁴¹ Consultation was to be extensive, if cumbersome.

Of great importance for the credibility of U.S. negotiators, given this domestic scrutiny, was the addition of the so-called *fast-track authority* to the compromise. Congress would be informed ninety working days before final agreements were signed, leading to specific committee consultations. After the final agreements were formally presented to Congress, it would have sixty days to vote on the agreement package. There were to be no amendments; Congress (both houses needed for nontariff portions) votes yes or no, up or down on one vote (greater detail of fast-track authority can be found in the next chapter in the discussion of the Uruguay Round ratification process).⁴²

The pragmatic effect of this arrangement was that agreements had to be made no later than March 1979 if the authorization deadline of January 5, 1980, was to be met. The Special Trade Representative, placed in the President's Cabinet by the 1974 Authorization Act, set a timetable for concluding basic agreements by early 1978. Similar rules were in effect for the later Uruguay Round as well. One scholar has argued that the extensive consultation and openness was the reason for the relatively easy success of both the Tokyo and the Uruguay Rounds within Congress.⁴³

Congress finally passed the authorizing Trade Act of 1974, and President Ford signed it in January 1975. Since 1973, the administration had been negotiating without authorization. Obviously, the 1975 date envisioned in Tokyo was unrealistic from the start. To complicate the round's timetable further, the United States was in the throes of pre-election politics. This led to delays until a new administration took power in 1977. Worldwide concern about these delays led to the "Downing Street Declaration," where major trading states (OECD particularly) met to discuss the delays, pledged to uphold liberalization principles, and reaffirmed the need for the Tokyo Round.

In the interim, the GATT secretariat maintained movement within the round by establishing a series of committees to deal with its issues. Seven groups were set up: (1) tariffs, (2) nontariff matters (with subgroups to cover the many code areas under consideration), (3) agriculture, (4) safeguards, (5) the "sector approach" (toward elimination of all barriers in specific sectors), (6) tropical products, and (7) special and differential treatment for developing countries.⁴⁴ These laid the groundwork for negotiation toward a final agreement.

TOKYO ROUND RESULTS

The results of the Tokyo Round were impressive given the hits taken by the international economy during the 1970s. The oil crisis of 1974 brought recession to major countries. Accompanying this was a period of high inflation and unemployment in the United States and Europe. Exacerbating these trends for many was the decade-long surge in Japanese exports. The condition of the international political economy brought protectionist pressures to all the major trading states, especially the EC and the United States. One scholar of the period concluded that "free trade ideals were left behind, victims of domestic regulatory practices, the influence of protectionism, and, above all the Cold War. . . . [while] at the level of tariff bargaining, Americans usually gave more than they received. At the level of defending cherished principles and goals, they were forced into wholesale retreat."⁴⁵

Perhaps because of rather than in spite of this, agreement on *tariff reductions* was reached early in 1977. Both the EC and the United States were pledged to further the across-the-board method of tariff reductions (with a list of exceptions, of course) as a means of furthering the long-term trends toward minimal tariffs. They quarreled over the formula for reductions, however.

The EC wanted what it called a harmonizing formula, one that would provide for larger percentage cuts in those tariffs that were highest. The United States opposed this, fearing the formula would harm some of its industries. Besides, the United States worked out the formula in simulation and found that EC tariff reductions would be less under the formula than those for the United States. The United States counter-offered an across-the-board 60 percent reduction in tariffs.⁴⁶

The EC still liked a harmonized formula. In the end, the Swiss provided the compromise, a weighted formula. It was a bit complex, and it had no foundation in economics, but it sold to the two giants because the bottom-line cuts averaged 40 percent (before exceptions), which fit the targets for both.

After the formula was applied, the average overall rate for nine industrial states was 34 percent of pre-Tokyo rates, creating an average tariff of 4.7 percent. U.S. tariffs were cut 31 percent to an overall average of 6.4 percent.⁴⁷ The across-the-board compromise not only included the formula, but the ability for product-by-product deals between individual countries that would, under the MFN concept, make these agreements in effect multinational. In the end, a few agriculture agreements added to the industrial products created reductions for twenty-seven thousand tariff lines covering 75 percent of industrial country duty-bound lines. Once more, significant progress had been made in the straight tariff reduction area.

As expected, nontariff barrier issues were not solved so easily. The final agreement provided sections that dealt with three nontariff areas:

1. establishment of six codes
 - four of a technical nature
 - two of a broad/major nature
2. four “framework” agreements for developing countries
3. separate economic sector agreements
 - dairy
 - bovine
 - civil aircraft

The four *technical codes* covered the areas of customs valuation, import licensing, technical barriers to trade, and antidumping. Administrative practices had restricted trade by the use of *customs valuation* and *import licensing*. Although used extensively by developing countries, these techniques were not foreign to major trading countries; for example, Congress kept alive the manipulative American Selling Price (ASP), one of nine methods of valuing goods coming into the country that had been ostensibly killed in the Kennedy Round. Under pressure from the chemical industry, Congress refused to let it go. The Tokyo agreements set a code that established five valid methods, one primary and the other four secondary, to be used in descending order. The primary method was to use the transaction value (actual price plus importation costs) for the valuation. Only

special circumstances should spark use of the others. Though complex, this agreement tended to limit manipulation in this area.

The code on *licensing procedures* spelled out the necessity for neutrality in application of licensing rules and equality in administration of those rules. Because of the fast-track process, Congress had to accept these two codes as part of the “package” of the Tokyo Round agreements.

The code on *technical barriers to trade* was an attempt to assure nondiscrimination and granting of national treatment with respect to standards, technical regulations, testing methods, and certification systems.⁴⁸ Product standards in regards to health, safety, environmental protection, packaging, and labeling had increasingly become means of limiting imports. This code argued for international standards to be adopted to eliminate these problems, though it did not articulate specific ones. It did approve procedures for notification of national standards and transparency in processes in order to allow for international input into domestic decisions. Governments were to advise importers, especially developing countries, on how to meet requirements. National governments were to discourage subnational units from setting restrictions as well. These problems did not go away, however, as illustrated by state and local laws in the United States and EC members setting their own standards.

The revised *antidumping* code differed from the Kennedy Round agreement in the technical, though controversial, area of how states determine injury from import dumping. The code required proof of injury to a domestic producer by means of evidence on volume of the imports plus the effect on prices. If injury was found, the code said that settlement should be equal to the injury and no more. A dispute settlement mechanism was placed within the agreement. We explain this process later in the chapter.

The two *broad/major codes* dealt with government procurement and subsidies and countervailing duties. The *government procurement* issue is the only one of these codes that was excluded from the original GATT agreements on nondiscrimination (Article III). The Tokyo code established for this touchy issue was two-fold: first, a general set of universal principles was agreed to, and then the code allowed for negotiations between countries on the actual application of the principles. The general principles pledged countries to nondiscrimination against foreign suppliers in government procurement and to transparency in the processes of procurement: “It contained detailed rules relating to such matters as describing the technical specifications for a product, publishing notices on bidding opportunities, qualifying as a possible supplier, determining the time allocated for submitting bids, awarding contracts, furnishing knowledge about bids and reviewing complaints.”⁴⁹

Besides agreeing to the principles, each signatory would provide a list of specific items they were willing to include under the rules. In this way, negotiations would set the actual availability of sales to foreign entities. These lists were provided in the annexes to the code agreement, as were purchasing entities of participants. This code was a major breakthrough for access to government purchasing by foreign firms.

Since EC countries and developing countries tended to have larger government penetration in their economies, the United States was pleased with this code as it promised the potential for opening more markets for its firms.

The area of *subsidies and countervailing duties* provided a much more complex problem since the major negotiators for both the EC and the United States had different concepts as to what was or was not a reasonable subsidy. The basic GATT agreement already permitted subsidies to domestic producers if they did not produce "serious prejudice to the interests of any contracting partner" (Article XXIII).⁵⁰ However, under U.S. pressure, tighter rules were created governing direct subsidies, but the exception areas remained large. In particular, agriculture remained an exception as it had been since 1947 when the United States demanded that it be placed outside of GATT rules.

The area of indirect subsidies, such as tax breaks for exports or price supports, was another story altogether. Neither the EC nor the United States was willing to agree on how much detail should be included as to what a reasonable subsidy was and what was not. The wording of the agreement left room for interpretation. In one area, though, it was clear. In order to get rid of a U.S. law that brought automatic countervailing duties (retaliatory tariffs) when foreign subsidies were claimed, the Tokyo agreement outlined strict rules for issuing them. Fundamentally, the rule said that "material injury" had to be proved before the duties could be imposed.

Agriculture was the primary area of concern for the United States in its relations with the EC. The United States pushed hard for specific limitations on subsidies from the EC under its Common Agriculture Policy. In the end, the subsidy section was so vague that the Subcommittee on International Trade of the U.S. Senate Finance Committee concluded, "The code does not contain specific criteria with which to measure subsidies and determine when they are excessive."⁵¹

While enforcement difficulties would continue, the agreement did set more specific settlement procedures than were extant in GATT for subsidy claims and countervailing duties. Indeed, the same basic formula was used for dispute settlement of all the codes within the Tokyo Round. The process said that first, conflicting parties were to hold bilateral consultations over the problem. If they could not work out their differences, a committee was to be formed of the code's signatories. (Note that not all GATT signatories signed all of the new codes under the Tokyo Round negotiations.) An expert panel would hear the case and report to the committee. The committee (in effect a committee of the whole) could then make recommendations to the parties involved or even approve countermeasures if violations were found and there were material injuries proven. Since the vote was to be on a consensus (thus unanimous) basis, it became a political problem as to whether or not the GATT could enforce its code.

Encouragingly, one scholar discovered that up to 1984, of the 159 disputes brought formally before the GATT (before and after the Tokyo Round), in only 8 did the disputants refuse to comply with the panel recommendations.⁵² These numbers show an overall success of the dispute settlement system, though unanimity did allow

some very high profile cases to go unsettled. Many disputes never reached the formal complaint stage because of the problematic nature of the GATT enforcement procedures; others were solved politically early in the conflict process. The ambiguity of this point led to the need for reform in the Uruguay Round.

The four “*framework*” agreements were designed specifically to aid in the incorporation of developing countries into the GATT disciplines. This agreement, separated out for a separate “framework” of negotiation, provided a contractual basis for favorable treatment of developing countries, especially by developed countries. Called the Enabling Clause, this portion of the agreement gave a permanent legal foundation to granting of tariff preferences under the Generalized System of Preferences. Special provisions for developing countries gave them permission to make arrangements that were not based on reciprocity with either developing countries or industrial countries. These arrangements were all to be voluntary. The GATT accepted these and other special conditions in exchange for pledges from developing country partners to become more active in the GATT. It proved difficult for developing countries to find substantive concessions, however, and it was another decade before developing countries would become aggressive in their GATT, by then WTO, participation.

The other three framework agreements covered (1) rules on use of trade restrictions to compensate for balance-of-payment problems, (2) exceptions for protection of infant industries in developing countries, and (3) sections on rules to expedite dispute settlement and for transparency within the trading system. The cumulative effect of these provisions was the opportunity for developing countries to foster and maintain economic stability and growth outside usual GATT rules.

Developing countries were still not satisfied with the outcome of the Tokyo Round. Too many of their key products were not covered by the general agreements. Agriculture, textiles, and basic minerals all had special regimes that discriminated against developing countries or made it impossible for them to compete equitably. Developing countries had to continually argue for preferential treatment and more programs of economic and investment aid on the part of the world’s major traders.

This leaves us with the round’s attempts to deal with *special sector* side agreements. The sectors addressed seriously were dairy products and bovine meat. The only progress made was to set up consultation and exchange of information procedures among dairy councils and bovine councils. There were some protocols established in an attempt to set minimum export prices on select dairy products, but they proved ineffective. When the general topic of agriculture arose, the United States, Australia, and New Zealand tried to push for substantive agreements but got only a generalized statement that came in the form of a recommendation to contracting parties “to further develop active co-operation in the agricultural sector within an appropriate consultative framework.”⁵³

The only successful sectoral negotiation was a side agreement between the United States, the EC, Japan, Sweden, and Canada on the complete elimination of tariffs on aircraft and component parts by the beginning of 1980. The implications of the agreement were that countries should not use any inducements to have their

governments buy only from domestic firms. Also, national setting of separate standards was limited in the agreement to eliminate this nontariff mechanism.⁵⁴ To oversee the agreement, a committee on trade in civil aircraft was established. It was, all in all, a successful freeing of trade within this sector.

The major unfinished business of the Tokyo Round concerned the provisions for *safeguards* in Article XIX of the GATT that allowed for emergency protection if an import seriously threatened a domestic industry. This concerned the concept of nondiscrimination, or most favored nation; that is, imports in the same category must be treated the same. The EC pushed hard with U.S. neutrality to indicate in the code that rather than getting emergency protection from all country imports, specific countries could be targeted. This allowed a targeting of protection from a specific unfair source. Developing countries saw this as a threat and lobbied long and hard against it. In the end, no new code on safeguards emerged from the round.

The Tokyo Round ended with some agreements that were viable, others that looked good but did not change behavior significantly, and some that were not successfully addressed at all. Ample room remained for dissatisfaction with the state of multinational agreements represented by the GATT. Most of the codes targeted the OECD countries and left the developing countries dissatisfied and still outside the mainstream of the GATT. International circumstances continued to challenge the rule of law concepts of the GATT, plus the problems of nontariff barriers and developing country equity had grown to the point of muddying the waters of international free trade.

CONCLUSIONS

Step by step, the GATT process produced significant reductions in tariffs across increasing sectors of the international economy. Early negotiation rounds were very successful in this respect. However, the explosion of membership brought the need to deal with economies that were unable to compete effectively under a liberalizing trade regime. Free trade was not always fair trade.

In addition, as tariff barriers fell, states found ways to placate their domestic producers who found foreign competition daunting. Their response was a bevy of often creative nontariff barriers. While the Tokyo Round began to attack the problems, increased complexities left large holes in the GATT system exploited by these nontariff actions. Lastly, the growth of international trade as a percent of major state economies thrust into the mix new areas of concern—service industries for example. The need for further and more complex negotiations toward a more mature system became increasingly obvious.