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The hegemon strikes back
Hegemonic rivalry and domestic coalitions
in international trade *

By

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1. The argument.

The political economy of international trade in the 1980s and 1990s is a "bargaining economy". Trade has become more managed. It is subject to negotiating processes where might is of increasing, multilateralism and the market mechanism of decreasing importance.

The hegemonic state, United States, has taken the lead in promoting this tendency to manage trade in particular in bilateralist forms. It has had strong incentives to do it: tough competition from its main rivals abroad threaten its position as a hegemon and the economic position of domestic firms and labor. Its position as a hegemon being challenged, it still enjoys the capabilities to pursue a managed trade strategy. In addition the fragmentary character of state institutions and a pluralist political system also tend to promote such a strategy.

It is the privilege of the hegemonic state to pursue a "mixed motive" strategy playing on a whole range of different, even contradictory options at one and the same time. No other actor enjoys to the same extent the opportunity to have others follow the rules of the game while free-riding on them itself. It has the means to combine the need to respond to demands from domestic interest formations which react to stagnation, unemployment and tough competition from abroad, with the need to defend the position of the US state in the international system against rival states.

The picture of the United States as a "benign multilateralist hegemon" appears as grossly overstated. It is derived from a dubious assumption - that of the hegemonic stability theory - and it is not supported empirically. ¹ In fact, the 1970s and above

the 1980s and probably the 1990s is the time, to borrow a popular phrase, when the hegemon strikes back.

The General Agreement on Tariffs and Trade (GATT) and its long drawn-out Uruguay Round is but one element of this bargaining economy. What it represents above all is a complex mix of unilateral actions, bilateral arrangements often resulting out of tough bargaining, and "minilateral" (regional) bargaining processes, all of which are outside of or at the border of the GATT. These arrangements and processes are supplemented by, sometimes implemented as foreign investment and production arrangements by which international trade is substituted for by co-production, local content obligations or similar arrangements. The "non-GATT-able" aspects of the bargaining economy are so strong that the Uruguay Round, even if it were to produce an agreement eventually, will not be able to give multilateralism the upper hand, at least not for a long time.

2. The departure: theoretical approach.
Bilateralism is a major aspect of managed trade and is the focus of the present study. It is an institution subject to a mixture of fixed and fluid bargaining procedure. The explanation for it is fairly complex. Our perspective is one based on interests (neo-realism) carried by state and (domestic) private agents and on two-level bargaining processes conducted or orchestrated by states. They are generally not unitary actors, but rather reflect coalitions of socio-political actors who carry those interests. Competent decision-makers and negotiators may modify and control the impact of strong particular interests, but generally they tend to obtain trade policy outcomes which favor their interests if their position is one of great domestic political, economic and social importance. Such a position is held in particular

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economic sectors, in decisive (even if marginal) regional voting power, or if strong organizational capability gets national political institutions to attend to particular demands.

The theoretical approach adopted is derived from an eclectic perspective. Single-factor explanatory models mainly based on international competitiveness may account for inter-sectoral variance in the propensity to use managed trade including bilateralism. Rational choice theories do offer some promise for constructing such a model, but neither they nor models built on straight-forward institutionalist explanations – public choice, predominance of mercantilist ideology or "simple" interest-group protectionism – suffice for the purpose of constructing a general model, that is a model which can be used inter-temporally and across a number of cases and sectors in culturally and contextually different settings.

The tendency for governments of the "market economies" to manage foreign trade in the 1980s and 1990s is generally explained by the extent to and the ways by which two classes of factors combine: on the one hand conflicting interests among the major economies over how to handle surplus capacity problems and unequal development of their respective market shares; and unacceptable domestic political costs associated with the distributive effects of the perceived alternative, free trade, on the other hand. We may refer to these two explanations as Hegemonic rivalry (decline) and Interest group politics models respectively. Associating with Putnam's "integrated two-level game" assumption about foreign economic policy formation, it is in combining these models to account for the interplay of exogenous (systemic) and endogenous factors that we find the basis for the general model.

The state has a mediating role in accommodating international and domestic sources of policy. State capacity is definitely greater in that respect in Japan than in the United States, but not greater in Europe where the state, including Germany, has to cope with an inter-governmental (partly supranational) regional level in addition to the two others, and where politics at that level is still fragmentary as the unionization project runs out
of speed and the strains of accommodating former Eastern Germany and Central Europe show up.³

There is undisputedly a strong fraction of "free traders" among contemporary American political and economic elites.⁴ But those who uncritically assume that the "fair traders" are also free traders who use managed trade only to achieve free trade in the longer run, may make an erroneous assumption, or they are in the worst case utterly naive. One of my propositions thus is that there are strong incentives for the "fair traders" to double-cheat: to pose as free-traders, but in reality pursue managed trade goals. In so doing they may find allies in another fraction, those concerned primarily with the challenge posed by Japanese (and to a lesser extent European, that is German) competitiveness and the de-industrialization scenario. This fraction would favour some form and degree of industrial policy, or as a supplement or possibly even substitute, strategic trade policy. If the fair-traders are primarily found among sectorial interest formations and the industrial/strategic trade policy advocates mostly within state institutions and the academe, then together they form a strong coalition. This is apparently what they have done in the United States, and it is a foundation which the Clinton Administration may make consistent and consequential

³ The convincing analysis in Peter Katzenstein, ed. Between Power and Plenty appears thus to have been overtaken by events in the two "strong state cases": reference is made to a not-so-united Japan as the Ministry of International Trade and Industry loses some of its coordinating power and other strains, political corruption and the loosening of ties between corporations and citizens show up. In addition the capacity of the (federal) state in the United States is somewhat greater than previously held, see John Ikenberry, David A. Lake, and Michael Mastanduno, eds. The State and American Foreign Economic Policy, in International Organization (special issue) vol. 42, 1 (Winter) 1988.

use of 5. For both of these fractions managed trade is an option with which they can very well live: it gives protection for the "Japan-bashers" and offers the industrial policy advocates, who also look upon Japan very much as a model, time to regain competitiveness.

A third analytical model, the Transnationalism or Intra­corporate transactions model, is potentially important. But I shall argue that the effect of this explanatory variable as proposed by Milner - that it systematically promotes trade liberalism 6 - is not necessarily valid. I propose that the effect of globalization on trade policy is generally speaking more neutral than clearly favoring free trade. For the purpose of this paper, thus, it is argued that the Transnationalism model may supplement, but cannot replace the two others.

The purpose of the paper is more specifically to (1) offer empirical evidence of and a preliminary explanation for the permanence and apparent growth of managed international trade in the 1970s and 1980s, (2) explain bilateralism in international trade during the same period, and (3) give evidence for the proposed strong involvement in managed trade and bilateralism by the hegemonic power, the United States, and explain why it has been a leading actor in advancing managed trade.

My theoretical contribution builds on that of others on important points, in particular Strange. 7 But in preferring

5 For the thinking of one academic who has "crossed the line" and become part of the political elite, see Laura D'Andrea Tyson, Trade Conflict in High-Technology Industries (Washington DC: Institute for International Economics, 1992)


Putnam's two-level game approach to the unitary actor model, it offers a new perspective compared to Strange and to Lake's preference for systemic structuralist explanations. It also departs from Krauss and Reich's analysis of "fair" trade as a motive for trade action, and differs from the analysis of the Yarbroughs and of Yoffie on bilateralism.

The phenomenon of bilateralism is widely found in international services (air travel) as well as in the international trade of goods. Also it represents a long tradition in the history of US trade policy-making. It is correct to say that the relative influence of liberal and mercantilist goals vary over that period, with mercantilism peaking with Smoot-Hawley. But there is variation within a framework of both goals being upheld simultaneously.

Variation in the relative influence of respective types of goals is a function both of the relative weight of "national interest" or foreign policy as opposed to domestic interest group preferences in their respective influence on trade policy, and to which preferences are held by the state. But the amount of change appears to be overestimated, the degree of stability underestimated by a number of the studies surveyed. Conflict-oriented or aggressive trade policy appears to be associated mainly, by some solely with Hirschman's famous case: Schachtian strategy. Many of the studies in mind might have reached different conclusions if the two last decades of great power rivalry and the behaviour of the hegemonic state had been properly studied and understood.


8 See Albert O. Hirschman, National Power and the Stucture of Foreign Trade (Berkeley: University of California Press, 1945)

9 As an outsider observer, one is struck by the limited degree to which many American analysts of the political economy of foreign trade consider the empirical facts regarding the actual contents and direction of US trade policy, and on the
3. The factual background: a "free trade" that never really was.

World trade has always to a large extent been managed through other than multilateralist mechanisms. This also holds for the post-World War II period. Looking back at this period, it appears rather misleading to refer to it as a particularly liberal era as far as the international trade system is concerned. One widely held view is that for various reasons, mostly geopolitical (the coming of the Cold War and the policy of containment), a compromise was struck between the liberalising aspirations of in

other hand, by the lack of scholarly exchange between those belonging to that category of analysts and those who in fact do empirical research on US trade politics and policy.

In a wider context of accounting for multilateralism not only in trade, but in across a variety of sectors, it appears particularly strange to read the emphasis that e.g. Ruggie puts on the strongly, in fact uniquely multilateralist character of American foreign policy in the post-World War II era. Aspects of the practice of US foreign policy within the United Nations in the 1980s (non-payment of arrears due, withdrawal from several UN organizations while still working through them informally, no to the Common Fund of the UNCTAD programme of commodities, the Bush administration's no to the UNCED conventions, etc.), the unilateral breach with the currency exchange rate regime in 1971, to mention but a few instances of manifest breach with multilateralism, add to the "aggressive unilateralism" in trade and to other aspects of trade policy discussed in the present paper. See John G. Ruggie, "Mulitilateralism: the anatomy of an institution", International Organization, Vol. 46, 3 (Summer) 1992 pp. 561-98. The author also gives no indication why he, as it appears, has changed his evaluation of US policy from that contained in a previous contribution of his, "The United States and the United Nations", International Organization, vol. 39, 2 (Spring) 1985. In the latter he concludes "the United States now plays the multilateral game less effectively than many other states" (p. 354).

A distinction is made between the openness of foreign trade and the degree by which it is liberal or protectionist. In a test of the liberalising hypothesis, Timothy McKeown concludes that "the advanced capitalist states were no more open to imports or multilateral in their trading patterns in 1948-72 than in 1921-1938 or 1881-1913" (p.151). He employs a double indicator method in his empirical analysis, reflecting both trade outcome (in terms of value of trade) and the policy instruments used to influence trade that is imports. In the present analysis only the latter type of indicators is employed. See Timothy McKeown, "A Liberal Trade Order ? The Long-Run Pattern of Imports to the Advanced Capitalist States", International Studies Quarterly, vol. 35, 2 (1991) pp. 151-72.
particular US leaders representing export interests and the need to exempt Western Europe from competition during the reconstruction period. According to Milward the profile of the compromise was such that it allowed national controls of foreign trade after the war which "virtually destroyed the Bretton Woods Agreement almost at birth". 11

The immediate post-World War II period appears thus to have followed the predictions of Polanyi: markets were "embedded" in the national societies as the new world order provided both for "economic collaboration of governments and the liberty to organise national life at will". 12 As nominal tariffs came down - and they did particularly with the Kennedy and Tokyo Rounds of the GATT - non-tariff barriers took their place. The net overall result may have been to keep trade restriction constant or maybe even increase it. In fact tariff reductions in the GATT appear to have been premised on discretionary introduction of non-tariff barriers or subsidies in order to, respectively, replace tariffs as a means of protecting import-competing industries and arrange for side-payments to compensate for the social costs of removing tariffs. The trade behaviour of France and the United States illustrates the former case; the behaviour of the smaller Western European countries is a case in point as far as the latter is concerned.

While trade in goods has become more managed over the last two decades, capital markets and currency exchange, on the other hand, have moved from considerable statist control to become considerably liberalised. 13 Parallell with and only partially accounting for the exponential growth in off-shore capital markets, internationalization of production continued to spread

12 Karl Polanyi, The Great Transformation (Boston: Beacon Press, 1944) p. 254
and grow. These processes - decreased control over national capital markets and increased internationalization of production - were more influential than the exchange of goods as such in making countries economically interdependent. As the processes coincided with unstable exchange rates, price fluctuations and stagflationary tendencies, they confronted governments with increased vulnerability and hence with a much more complex decision-making situation.

The parallell processes of tariff reductions and managed trade within the trading system, and of these tendencies on the one hand and liberalization in capital markets on the other appear as a strange contradiction to many observers. But they may as well be seen as logical compromises resulting from the interplay of multiple policy goals pursued by rational state and domestic actors. Thus it appears as highly probable that there is a causal link between, on the one hand, the extent and gravity of surplus capacity problems and currency rate and capital flow volatility, and on the other hand the tendency to increasingly manage the circulation of goods.

If, however, such causal links may not be proven empirically, the coexistence of free trade speeches and managed trade deeds can be understood by applying Putnam's model. The simplistic account would be see "free trade" as a product to be consumed by the international diplomatic audience, "managed trade" by domestic interests. I shall return to the more analytically based account, which was briefly outlined in the previous section, below. The resounding echo of the liberal Smith-Ricardo rhetoric, however, never made decision-makers turn their attention away from the warnings of Polanyi about the "tremendous hazards of planetary interdependence" that could lead to economic and social


15 See Susan Strange and Roger Tooze, eds. The International Politics of Surplus Capacity (London: Butterworths, 1981)
4. Thriving in a grey area: managed trade in the 1990s.

When one gets down to the specific forms and mechanisms of trade policy, there is a lack of a universally accepted borderlines between which are "free trade" and which are mercantilist or "managed trade". The distinctive criteria are found in the GATT MFN and national treatment rules, but it appears very often difficult to determine when they are applied or not. This lack of precision and lack of an exhaustive classification means that a "grey area" exists between the two broad categories. 

Available evidence indicates that trade arrangements have thrived extremely well on the grey area during the past two decades. One of the most comprehensive institutions of managed

\[^{16}\text{Op.cit. p. 181}\]


\[^{18}\text{Gilpin, op.cit. p.18}\]

\[^{19}\text{An example of such grey area measures are some types of voluntary export restraint arrangements and orderly marketing agreements. They are generally believed to be inconsistent with GATT rules and therefore clearly managed trade, but in certain cases, notably those fallind under Article XIX, the main "escape clause", they could be considered GATT-legal. See John H. Jackson, "Consistency of Export-restraint Arrangements with the GATT", The World Economy (Vol. 11, no. 4, 1988), pp. 485-500. For a useful survey of the problems in defining categories clearly and exhaustively, see Frank Wolter, "Trade Liberalization within the GATT Framework ?", in Herbert Giersch, ed. Free Trade in the World Economy. Towards an Opening of Markets (Tubingen: J.C.B. Mohr, 1987), pp. 540-73.}\]
trade is the Multi-Fiber Arrangement (MFA) which has been legalized in the GATT. This case represents what may be termed "multi-bilateralism" and is a proof that the GATT principles are sometimes stretched towards accommodating a practice which is logically inconsistent with GATT ideology, but adopted for political reasons. In cases where such "GATT legal" arrangements do not exist, governments may free-ride in the grey area claiming that its measure is GATT-compatible without running the danger, at least in the short term, of being sanctioned for breaking multilateralist trade rules. An example is the European Community's use of the anti-dumping institution. Thus although one can make a strong theoretical case for cooperative solutions based on egoistic actors taking a long-term perspective, the "revealed preferences" approach applied here indicates that the short term perspective prevails over the long term one in current trade politics. The spread of the practice of free-riding of course was an important reason why the Uruguay Round targeted clarifying article XIX with respect to grey area measures as a priority task.

3.1. Managed trade: a first cut.

International trade is "managed" if it is subjected to decision-making procedures and effectively regulating mechanisms which are not compatible with, or are directly contradicting, the multilateral principles of non-discrimination, most-favoured nation treatment (MFN), national treatment, transparency and open competition for market access. Multilateral management of international trade that follows these principles, although it

20 The degree of protectionist discretion offered by the MFA in particular during the 1970s and most of the 1980s appears so considerable that it is somewhat misplaced, in a comparative institutional analysis, to refer to the arrangement as "liberal protectionism" (Aggarwal, 1985).


22 See Robert O. Keohane, After Hegemony (
Managed trade may be both trade-creating and trade-restricting, liberalizing and protectionist. It is represented by e.g. discriminatory unilateral trade measures (quotas etc); bilateral agreements between governments concluded and/or implemented inside (the Multifiber Arrangement) or outside (Voluntary export restraint agreements) of the GATT framework; and minilateral sectoral preferences or regional trade arrangements that explicitly discriminate against third parties. These arrangements are either typically contractual, that is they link two or more market actors to an exchange commitment with conditions of exchange to some degree specified. Or the purpose of an arrangement is insulation of the market actor concerned from international markets, in more well-known terms to offer some form and degree of protection from competition.

Other aspects of managing the international circulation of goods and services are not considered as part of "managed trade", but may indirectly affect the latter and sometimes overlap with it. This applies to intra-firm transfers and comprehensive inter-firm alliances, both of which reflect internalization of flows. In GATT's and UNCTAD's terminology, a number of the latter are classified under Non-tariff barriers or Trade control measures, and these broad classes are sometimes made synonymous with managed trade. Market-opening action which ends in bilateral arrangements that discriminate against third parties is also a sub-set of "managed trade", not a priori "fair trade" action compatible with multilateral rules as it is often claimed.

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21 For a useful discussion of GATT and UNCTAD classification, see Laird and Vossenaar, 1991.

22 Here we depart from the conceptualization suggested by Krauss and Reich, op.cit; they appear to view "managed trade" only as an import-protecting measure whereas it also covers such export-creating measures as the bilateral auto-parts and microchip deals which the United States obtained from Japan.
Several estimates based on statistical surveys show that managed trade according to the conceptually wide operationalization offered above, did increase during the 1970s and continues to account for a large share of international trade in the 1990s. Also intra-firm transfers and strategic alliances have been increasing as internationalization of production has continued. With recent efforts of some host governments to reduce intra-firm transfers in favour of sourcing inputs from local host country production (the "local content" strategy), the share of international flows of goods which is accounted for by intra-firm transfers may cease to grow or even decrease. But even this outcome may be seen as a substitute for managed trade since local firms of foreign owners are favoured over third country firms, maybe even over foreign affiliates of domestically controlled firms as well.

Drawing from a more detailed report, I shall first offer empirical support for my case that managed trade and in particular bilateralism has increased over the last two decades. I shall then propose an explanation for the leading role that the United States have played in promoting bilateralism. I shall end by drawing some implications for further theory-building efforts and for multilateralism.

25 See Sheila Page, 1981 EFTA Secretariat, 1983 Michel Kostecki, UNCTAD Secretariat,


29 For a more detailed discussion, see Hveem (1993).
Present US trade policy practice is based on a legal system which one American business lawyer refers to as "a bewildering array of restrictions on what may be sent to, and received from, whom" (de Kieffer, 1988). But is it worse than its rival powers? The hypothesis is that if trade-creating aspects are added to the trade-restricting aspects of her trade policy, the United States is definitely no better, but probably worse.

There is still no complete and reliable statistics at the country and/or dyad level of trade restrictions or measures representing managed trade. Readers are therefore cautioned that the data which follows is roughly indicative of variance on our first dependent variable, not a conclusive test.

Rough estimates do however exist. As services, technology transactions and agriculture have remained outside of GATT, and a number of manufactured and intermediate industrial products have been subjected to various types of managed trade, less than 10 percent of global economic activities may in the 1980s be subject to GATT rules. Other accounts put the share at between 1/3 and 1/4.

Since tariffs are no longer the major instrument of trade management, we have to consider TCMS including market-sharing or -opening arrangements as indicators of the dependent variable, managed trade. Starting at the end of the 1980s, secretariats of both UNCTAD and GATT are conducting detailed surveying of trade policies and practices of member countries. Their data is still incomplete, but they are indicative of trends in the use of unilateral, bilateral and of grey area measures.31


31 The UNCTAD Secretariat uses the term Trade Control Measure (TCM) as roughly equivalent to NTM. See UNCTAD,

32 UNCTADs database, the Database on Trade Control Measures (TCM), uses the single transaction of one product at the 6 digit level of the Harmonized System of trade classification (or the single tariff-line) as the unit of analysis. The database thus contains information on how many of the international trade transactions in the individual country’s imports and exports are
Trend analysis indicates that the developed countries on the average increased their use of TCMs considerably over the decade and maintained a stable level at the end of it. This appears

**Table 1: Comparisons of trade dependency and managed trade practices of the EC, Japan and the United States, 1990**

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<tr>
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<th>European Communities</th>
<th>Japan</th>
<th>United States</th>
</tr>
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<tbody>
<tr>
<td>Exports as % of GDP</td>
<td>21</td>
<td>9.3</td>
<td>7.4</td>
</tr>
<tr>
<td>Share of world trade, %</td>
<td></td>
<td>7.5</td>
<td>13</td>
</tr>
<tr>
<td>Share of imports accounted for by two other majors, %</td>
<td>USA 19.5</td>
<td>USA 22.5</td>
<td>EC 15</td>
</tr>
<tr>
<td></td>
<td>Jap 10.5</td>
<td>EC 15</td>
<td>Jap 18</td>
</tr>
<tr>
<td>Share of imports acc. for by developing countries (1989), %</td>
<td>31.5</td>
<td>29.5</td>
<td>37</td>
</tr>
<tr>
<td>Balance of trade, mill. USD</td>
<td>1)</td>
<td>69.864</td>
<td>- 108.853</td>
</tr>
<tr>
<td>Average tariff level all import products, %</td>
<td>7.5</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Non-tariff measures imposed by country (1991) acc. to 2)
A) value of imports covered, %
B) share of trade flows

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<th>A</th>
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<th>A</th>
<th>B</th>
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<tbody>
<tr>
<td>I. total trade (imports)</td>
<td>21.5</td>
<td>18.6</td>
<td>17.9</td>
<td>13.9</td>
<td>20.1</td>
<td>9.3</td>
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<tr>
<td>Broad definition 3)</td>
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<td></td>
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<tr>
<td>Narrow definition 3)</td>
<td>16.4</td>
<td>14.4</td>
<td>17.0</td>
<td>13.2</td>
<td>12.7</td>
<td>8.0</td>
</tr>
<tr>
<td>II. imports from OECD 4)</td>
<td>15.7</td>
<td>12.5</td>
<td>23.3</td>
<td>13.4</td>
<td>21.6</td>
<td>4.9</td>
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<td>Broad</td>
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<tr>
<td>Narrow</td>
<td>9.7</td>
<td>8.3</td>
<td>22.3</td>
<td>12.7</td>
<td>11.7</td>
<td>3.7</td>
</tr>
<tr>
<td>III. imports from developing countries 5)</td>
<td>29.7</td>
<td>25.7</td>
<td>11.9</td>
<td>14.5</td>
<td>17.7</td>
<td>14.7</td>
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<tr>
<td>Broad</td>
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<tr>
<td>Narrow</td>
<td>25.9</td>
<td>21.4</td>
<td>11.1</td>
<td>13.8</td>
<td>14.1</td>
<td>13.4</td>
</tr>
</tbody>
</table>

subject to some form and degree of trade control, without however estimating the degree. The classification and other aspect of the methodology used is explained in UNCTAD/DDM/2(Part I), 1 August 1992 entitled Directory of Import Regimes. The database thus does not cover export-opening measures of country A against country B, but these may appear in the statistics under country B. As for GATT, the secretariat a few years ago initiated a series of Trade Policy Reviews of individual member countries' trade practice. The series which has already produced a number of country studies, is based on national authorities' own account and on extensive surveys by secretariat staff.
Non-tariff measures by sector on imports from all countries (1991), broad NTM definition 3), %

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<tbody>
<tr>
<td>Food</td>
<td>33.5</td>
<td>36.9</td>
<td>52.1</td>
<td>45.9</td>
<td>19.9</td>
<td>8.2</td>
</tr>
<tr>
<td>Agric. raw materials</td>
<td>2.0</td>
<td>3.6</td>
<td>4.9</td>
<td>20.8</td>
<td>2.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Ores and metals</td>
<td>21.2</td>
<td>30.0</td>
<td>0.1</td>
<td>0.8</td>
<td>27.1</td>
<td>29.2</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>78.5</td>
<td>57.0</td>
<td>0</td>
<td>0</td>
<td>64.8</td>
<td>56.1</td>
</tr>
<tr>
<td>Chemicals</td>
<td>4.9</td>
<td>4.4</td>
<td>28.7</td>
<td>14.1</td>
<td>2.3</td>
<td>1.2</td>
</tr>
<tr>
<td>All manufactures</td>
<td>21.6</td>
<td>18.1</td>
<td>8.9</td>
<td>9.7</td>
<td>23.4</td>
<td>9.3</td>
</tr>
<tr>
<td>Textiles</td>
<td>50.4</td>
<td>47.6</td>
<td>40.5</td>
<td>48.3</td>
<td>43.9</td>
<td>25.6</td>
</tr>
<tr>
<td>Clothing</td>
<td>69.1</td>
<td>53.5</td>
<td>5.0</td>
<td>4.1</td>
<td>75.0</td>
<td>33.9</td>
</tr>
<tr>
<td>Footwear</td>
<td>94.8</td>
<td>95.3</td>
<td>8.0</td>
<td>28.1</td>
<td>0.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Automobiles</td>
<td>76.3</td>
<td>16.8</td>
<td>0</td>
<td>0</td>
<td>48.3</td>
<td>7.8</td>
</tr>
<tr>
<td>All manufactures</td>
<td>36.6</td>
<td>28.1</td>
<td>6.1</td>
<td>7.9</td>
<td>23.3</td>
<td>17.6</td>
</tr>
</tbody>
</table>

Source: UNCTAD Database on Trade Control Measures.

Notes to Table 1:
1. Not calculated since national balances vary enormously, Germany with 71.710 and UK with - 32.401 representing the extremes (1990 figures).
2. Indicator A measures the value of imports affected by selected NTMs as a share of all imports. Indicator B expresses the number of trade flows (transactions) - the number of tariff lines at the 6 digit level times the number of trading partners - covered by NTMs as a share of the total number of trade flows.
3. See Appendix for definitions.
4. Australia, Austria, Canada, EC and its member states, Finland, Japan, New Zealand, Norway, Sweden, Switzerland and the United States.
5. Includes the Newly Industrializing Countries and OPEC countries.

Technical note:
The main reason why both indicators, A and B, should be taken into account, is that the trade restrictiveness of different kind of NTMs can vary significantly from one case to another and that trade flows may doubly be affected by NTMs. As an example, import prohibitions which do not allow for any trade receive a zero weight whereas "soft" NTMs with little impact on trade receive a high weight. See UNCTAD TD/B/AC.42/5 Consideration of the questions of definitions and methodology employed in the UNCTAD database on trade measures, 7 March 1988.

to apply equally much to both "GATT-legal" measures (such as anti-dumping and countervailing), grey area measures, and to those which are considered clearly "GATT-illegal" some of which were also brought before a GATT panel. A conservative estimate
thus is that at least 18 percent, or some 250 bn USD of all OECD imports are subject to some quantitative restriction or price control measure (1991 data). Border control in agriculture, MFA type restrictions in textiles and clothing and VERs in several manufactures together account for more than half of this. There are also indications that such restrictions increased by around 15 percent from 1981 to 1987 when they may have stabilized.

During the same period the tariffs of developing countries on the average came down from a comparatively high level at the beginning to a comparatively low level at the end of the decade. The developed countries thus on the average moved away from compliance with the global free trade regime, whereas developing countries on the whole moved closer towards it in the 1980s.

The major economies differ according to which type(s) of trade control measures (TCMs) they use. Japan uses health and safety regulations extensively, and such regulatory measures together with measures to protect the environment, are also being widely and probably increasingly used by the two other majors. All three use quantitative restrictions of various types a lot. There is also widespread use by the EC and the United States of countervailing duties or anti-dumping measures. The United States according to GATT data has been the biggest user of such measures throughout the 1980s, matched only by Australia. Among the other countries of the OECD, Canada and New Zealand besides the EC are comparatively large users of TCMs. During the recent years, even developing countries such as Mexico has begun to use this form of managed trade.

The Boren Amendment before the US Senate is one indication of this trend. The amendment if or when it becomes legislated, will offer the Executive wide opportunities to impose trade restrictions on imports which originate in countries that according to US authorities do not apply the same environmental protection standards as do the United States.

See the GATT Secretariats various country profiles under the Trade Policy Review programme, some of which are referred to explicitly throughout this study.

See Financial Times, Dec 15, 1992
More importantly, the major economies differ with respect to sectoral use of managed trade. Following our hypotheses, we expect that the Domestic interest factor shows up in managed trade being particularly present in distressed or relatively employment-sensitive branches, and in those where economic efficiency or competitiveness has been eroding. This is clearly supported in the data: the tendency for the United States and the EC to manage imports is particularly prominent in iron and steel and automobiles, whereas Japanese protection appears par excellence and as expected in food. All of the three moreover are actively using TCMs in textiles, Japan much less so however in the case of clothing.

Data are too aggregated in their present state to offer a probe into the Strategic trade policy hypothesis. But an aspect of the hypothesis is well supported by the data presented in Table 2: the fact that Japan is not using TCMs in manufactures imports is consistent with the assumption that it uses industrial policy rather than trade policy strictly speaking in order to promote manufacturing interests. The EC and the United States are comparatively weaker in terms of industrial policy and therefore use trade policies to a larger extent to promote industrial manufacturing interests.

It is, however, when we turn to trade-creating or export-promoting measures that the profile of US trade policy as compared to those of its two main contenders takes on a more "aggressive" tone in terms of managed trade. socalled microchips or semiconductor case, that of public sector contracting and the much discussed case of auto spareparts all

36 This also is consistent with Krauss and Reich’s findings about trade policy substituting industrial policy in the case of the United States. See Ellis S. Krauss and Simon Reich, op.cit.

37 This comparative look may be one factor pushing both some fractions of the Clinton Administration, among them Robert Reich and Laura D’Andrea Tyson, to advocate an industrial policy in the United States, and some members of the EC Commission to do the same.

38 The term is borrowed from Jagdish Bhagwati and Hugh Patrick, eds. Aggressive Unilateralism
reflect an aggressive market-opening strategy. In the semiconductor and auto parts cases, the executive branch probably acted mostly on behalf of domestic sectoral interests, but strategic trade policy considerations may have influenced the handling of the semiconductor case. The strength of domestic interest group considerations was very visible indeed in the auto parts case when President Bush on his state visit to Tokyo in January 1992 helped accompanying CEOs of the Detroit Three pressure the Japanese to reserve a share of the Japanese market for US producers.\(^{39}\)

In all these cases the official US posture was that of demanding "fair trade". US companies' unsuccessful penetration of Japanese markets was explained by unfair treatment of them by the Japanese. The "fair trade" strategy and the call for Japanese adjustment that resulted in the Structural Impediments Initiative (SII) allied the Executive to Congress. In particular this appears to be true in the case of public works. Here the US side could rely on a relatively safe case when they proclaimed that American competitiveness was prevented from playing freely on market forces especially in high-tech niches of public works. The US side could probably be said to have a similarly well-founded position in two more cases: the FSX fighter and in supercomputers. US policy in these two cases, and in particular the FSX fighter case, was much resented by the Japanese for being not only aggressive, but also not well founded. \(^{40}\)

The auto part case illustrates the other extreme: the hegemon has lost (much of her) competitiveness and uses her political leverage to "level the playing field" in order to obtain a market-sharing arrangement. That at least is how third parties view this and other bilateral arrangements between Japan and the United States. Both the EC and Australia have complained that the

\(^{39}\) A target for the volume that Japanese purchases from US suppliers were supposed to reach was agreed, although there has been disagreement between the two sides over the interpretation of the extent to which this is a binding commitment or not.

effect of the SII, semiconductor and auto part deals is to switch foreign sourcing to the United States at the cost of suppliers from third countries. It is of little help to them that Japanese trade officials say that market-opening arrangements such as the semiconductor pact is targetting a 20 percent "foreign" share of the Japanese market when Japanese companies interpret this as meaning an "American share". Bilateral bargaining has become a prominent feature in managing markets.

3.2. Bilateralism in trade.
A bilateral agreement is an arrangement which defines rules and conditions that are specifically made for managing relations between two identifiable countries within an identifiable issue-area and, normally, for an agreed period of time.

Bilateral agreements are widespread outside the trade arena and are dominant in the diplomatic, military assistance, development assistance, airline transportation and other areas. They are also used for arranging access to fishing within national exclusive economic zones, to arrange for international taxation of individuals and firms, in currency management and in debt management agreements.

Bilateralism in trade could therefore merely be a function of its widespread application elsewhere. A simplistic spill-over explanation of bilateralism in trade does, however, not carry us very far. In the above illustrations it has been shown that in international trade the purpose of bilateral agreement normally is to arrange sharing of markets either by liberalising (market access) or restricting (market insulation) exchange. Bilateralism is very often discrimination by intent. But why is it chosen before multilateralism as an instrument of liberalization, or before unilateralism in order to discriminate among trading partners or to protect a segment of the domestic market?

It was suggested above that the extent to which bilateralism is being used depends on the interaction of structural change in the international (economic) system and the level and type of domestic response to such change. This general assumption must

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Financial Times, April 3, 1992 p. 5
be made more specific and related to Putnam's model. In what follows I make four propositions why bilateralism is preferred to multilateralism or unilateralism. 42

Aggarwal deduces three arguments from what he refers to as "international systemic theory" to explain why multilateralism is preferred to bi- or unilateralism: the influence of wider, global systems that constitute a hierarchy of systems within which the trade system is situated and from which it derives its ordering principles (through "nesting"); a desire to control the behaviour of other countries; and information and organization costs. 43

The first of these, the "nesting" argument, would appear to be premised on the realist assumption that security is a concern that takes priority over economic wealth. This assumption is highly contested both in theoretical debates and in the praxis of politics among the major powers. It may, however, point towards a possible incongruence in the cognitive approaches of those powers at the present time: the US government may act according to a perception of a hierarchical order of the preference structure of all the major powers (as assumed in the rational unitary actor model), whereas the other major powers may see no such hierarchy. The bottom-line is that these powers, after the end of the Cold War, no longer see security as a goal that takes precedence over other goals, and hence US supremacy is no longer evident to them.

On Aggarwal's second and third assumptions the main objection is that they underestimate the problem of enforcement. This problem leads to the first proposition that is made here:

(1) Bilateralism scores relatively high on enforcement i.e. it is a comparatively efficient mechanism when it comes to enforcing a trade policy goal. It offers a better chance than multilateralism of controlling against free-riders.

42 These are different from the class of factors suggested by Schott who applies an international, relational approach that sees bilateralism as a reflection of other countries' cheating and of GATTs inefficiency; see Jeffrey Schott, ed.

43 See Vinod Aggarwal, Liberal Protectionism.
Comparing the multilateral to a bilateral approach, we need to differentiate between, first, the level of rules and procedures in setting up international agreement and second, the level on which the actual exchange takes place. In a bilateral arrangement the transaction costs are generally speaking high at the first, the rules and procedures level. They are lower in the case of a multilateral arrangement on this level - although it might be observed that the costs (time and efforts) it takes to complete the Uruguay Round speak against this assumption.

On the level of implementation of agreements, the bilateral arrangement offers better prospects including lower costs of controlling a trading partner from cheating. This is the more true if the assumption is specified: some trading partners will be more inclined than others (because they have better opportunities, have a reputation for it, etc.) to cheat; a bilateral arrangement with those few partners can solve the problem without having to resort to a multilateral arrangement. Also, the bilateral agreement is favoured inasmuch as it is self-enforcing: it is not dependent on third party intervention to function; each party decides unilaterally whether she is best served, weighing costs and advantages, in sticking to the agreement or stopping it, and it offers a reciprocity element that is based on the expectation that the other party will act in a similar manner.

But why not choose a unilateral solution over a bilateral one? If the former is GATT-compatible, it would appear to dominate a bilateral solution which more often than not is a "grey area" measure or an outright breach with GATT. If, however, a unilateral solution is not GATT-compatible, or if it hurts third parties while the target of the trade action is to control some particular country, then:

See Bruno Frey and Buhofer,

(2) A calculation of political costs involved in the alternative types of trade action will favour a bilateral solution.

Unilateral actions such as e.g. escape clause action allowed by the GATT, tend to invite more bitter reaction than a bilateral measure. And if there is good reason to expect retaliation, it may be easier to isolate the effect in a bilateral arrangement than in a non-discriminatory unilateral one. This reduces the total political costs by reducing the number of trading partners affected.

Also, bilateral arrangements have often been used successfully to control alleged "troublemakers" in the name of "fair trade". The purpose of a bilateral arrangement may thus sometimes be to appease the domestic public or that particular section of it directly concerned, a point which fits neatly with Putnam's model assumption. This leads to a third assumption:

(3) Bilateral arrangements ease domestic political pressure by signalling to interest groups that government is handling foreign "problem" countries.

Finally, it has been shown that bilateral arrangements in particular VERs and similar quota restrictions, may create rents for producers in foreign countries (as well as protection of producers domestically which is assumed to be the main motive). Producers of country A, imposing the arrangement, are protected by restrictions on the volume imported whereas producers in country B, which agree to those restrictions, are being rewarded through higher prices. Consumers and/or tax-payers in country A carry the costs. Thus:

(4) The nature of bilateral arrangements is such that they facilitate striking an economic deal with export interests in a foreign country by offering a rent (an extra profit) as compensation for reduced volume.

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46 See Metzger, 1991; and John J. Coleman and David B. Yoffie, "Institutional Incentives for Protection: The American Use of Voluntary Export Restraints", in


The advantages that bilateral trade agreements appear to offer, have potential trade-offs. Besides a potentially discriminatory effect, compliance may result out of the use of coercive power, not voluntary acceptance. This is often true if the relationship between the parties to an agreement is one of asymmetrical bargaining power. Such was the case when the first VER was concluded – an agreement made in 1957 between Japan and the United States demanded by the latter in order to reduce the imports of textile products to the US market (Yoffie, 1983). It is also a telling fact that between 1/2 and 2/3 of all the VERs concluded during the 1980s were made after initial threats of unilateral action, such as countervailing duty, anti-dumping or other similar action, threats mostly issued by the United States or the European Community. 49

Let us now take a closer look at these arrangements in order to see how far they illustrate and in fact support the assumptions made above.

Voluntary export restraint agreements and Orderly marketing arrangements (VERs and OMAs) are probably the most typically and truly bilateralist ones. 50 These are trade-restrictive arrangements whereby an exporting country, A, agrees to limit her exports to an importing country, B, at a set volume normally specified in the agreement. The agreement may also specify sanctions to be applied if the targetted maximum volume is exceeded. As pointed out above, these subtypes often result from initial unilateral demands, threats of action or even concrete action. In most if not all these cases there are thus elements of political bargaining leverage being used by the importing country.

49 Estimate offered by GATT secretariat staff.

From the discussion of the origins of bilateral agreements offered above, one may observe that such agreements seldom result out of any initial and mutual understanding between the two parties concerned about the desirability of the respective measures. Rather they appear to result out of an action-reaction process between an importing and exporting country. The former's need to protect industrial employment (import-competing industry) or some other domestic or national interest appears to be the motive and thus the initiating force behind the action. As our comments on managed trade showed, there are, however, possible exceptions, Japan-US relations being one case where bilateral solutions may have been preferred or sought from the very outset from at least one of the parties. In GATT's trade policy review of Japan (1992) Tokyo is criticized for being too willing to accept bilateral bargaining solutions instead of bringing trade issues before the GATT. The same criticism can be levelled against the United States which, however, is in particular using strictly unilateral measures as a breach of the GATT.

In a study of some 375 VERs and OMAs registered during the years 1970-88, it was found that close to 4/5 of all these agreements were concluded between a G7 country, that is a major economic power member of the OECD, as importing country and other (exporting) countries. Some 1/4 of all VERs and OMAs were however concluded among G7 members themselves. Most of these, probably almost 4/5 of them, were directed at Japan as exporting country.

The number is based on research using information from various sources such as the GATT secretariat, the IMF, the Annual Reports of the US Trade Representative, the Department of Commerce and Financial Times. None of these are, however, responsible for the accuracy of the numbers offered. Checking of the original data has been done, and assessments from both representatives of the GATT secretariat, DOC employees and the trade ministries of Japan, Korea and Taiwan indicate that the numbers may be inflated maybe by as much as 1/3. This is mainly due to uncertainty about definitional issues and lack of transparency of information on when arrangements expire, whether they have been implemented after being politically cleared, etc. For a clarification of the methodological issues, see the discussions at the GATT Special Council meeting of 17 March 1992. My assessment is also based on interviews with GATT secretariat officials.
And the initiators of VERs and OMAs, both globally and within the more confined inter-G7 relationship, are first of all the United States and the European Community or several of its individual members.\textsuperscript{52} Between them the two account at the importing side for about 3/4 of all VERs and OMAs concluded during the period covered. At least 10 percent, probably more of US imports were covered by VERs at the end of the 1980s.

Bilateral agreements are thus in large measure a function of competition for market shares among the major countries in the world economy. This substantiates the Hegemonic rivalry hypothesis and offers support for our suggestion that there are cognitive maps viewing "the other" as aspiring (Japan) and oneself as stagnant (the EC during the "Eurosclerosis" period, and the United States in sectors such as steel and autos).

At the same time bilateral arrangements are being used by these countries, but also by Japan, to control against competition from Newly industrializing countries (NICs). At least 1/4 of all the VERs and OMAs recorded in my study included a NIC country, and their share of recorded agreements increased over the period under study. This means that there is a gradual shift from these agreements being used against Japan and the "first-tier" NICs, South Korea and Taiwan (ROC), to their being used against "second-tier" NICs such as China.\textsuperscript{53}

It was argued that one important reason why such bilateral agreements have proliferated, is found in combining domestic interests with national foreign policy concerns. Domestic pressure for protection often lead governments to chose a

\textsuperscript{52} Hindlay (1990) observes that the EC is comparatively less inclined than the United States to make use of VERs and he offers an institutionalist explanation for this: it is more difficult for the Commission, dependent on Council of Ministers acceptance, to impose VERs at the community level since Germany is likely to resist. It may be observed, however, that possible restrictions at the community level has not inhibited individual countries up until recently to impose VERs on their foreign trade partners in Asia and Eastern Europe in particular.

\textsuperscript{53} GATT's trade policy review on Korea indicates that the number of bilateral arrangements between Korea and foreign countries may have been underreported in the statistics used so far. (GATT, 1992)
bilateral agreement instead of unilateral action. Consumers are hurt, but they are much less well organized than producers and are unable to bring their view to weight as heavily in the decision-making process.

The domestic interest factor appears to be quite consistently present in the VERs surveyed. They do not to any large extent cover textiles and clothing which is taken care of by MFA as well as the so-called Textiles Restraint arrangements. But the VER/OMA agreements relate to manufactures and food imports in the case of the EC, and to iron and steel products (and manufactures) in the case of the United States. The value of trade covered by VERs is however particularly great in the auto industry which alone may account for about half of the VERs in terms of value. Also the single most important VER (in value terms) has been the one restricting Japanese automobile exports to the United States. As for VERs managing Japanese imports, they were divided between food and manufactures. These sectors are the ones that are particularly sensitive to foreign competition for employment and thus social reasons. Close to 85 percent of all recorded VERs and OMAs made during the period surveyed were made in these three sectors.

The bilateral agreement is thus found among countries the economies of which are highly interdependent. The fact that such arrangements are often made in a context of hard bargaining further underlines the character of their relationship as one of antagonistic interdependence. The combination of high interdependence with a context of goal and/or distributional conflict, real or perceived, is characteristic of the 1980s. Bargaining between the Three major economies, but also negotiations between the United States and Mexico over the free trade area are cases in point.

It highlights two points to be observed in future research: (1) that bilateral or "minilateral" free trade arrangements could be on the increase, probably linking up with a tendency for the organization of production and trade to become more regionalized (2) that such arrangements will increasingly be subject to cross-sector or -issue linkaging.
4. The hegemon strikes back.

It is a well documented fact that US trade policy over the period 1934 to about the end of the 1960s or early 1970s was one where liberalising foreign trade was given high priority. Reasons of foreign policy and the maturing of highly competitive industries looking for export markets led a new political leadership to abandon Smoot-Hawley. The policy pursued was one of bilateralism which was meant to open up foreign markets and of multilateralism, the former relatively more prominent in the 1930s since it was the war experience and occasion of Bretton Woods that offered the first real opportunity to pursue multilateralism. But at the same time as the hegemon introduced moderate multilateralism, there was an easing of the second part of the regulatory regime under the RTAA. This made access to administered protection more easy and reduced the conditions that were to be met before protection was granted (Wilkinson, 1960; Destler, 1986).

At least as early as in the beginning of the 1970s the value of goods imported to the US subject to export restraints mostly under bilateral arrangements, surpassed the value of goods that were subject to import quotas (Bergsten, 1975; Yoffie, 1983). They were made in the form of Voluntary Export Retraints (VER) and Orderly Marketing Arrangements (OMA), or as in the years following the end of WW II as "traditional" bilateral quotas. As will be better understood in a moment, it may not be entirely appropriate to refer to the fact that the US administration was the first to introduce VERs for industrial products after the war as "ironic" (Yoffie, 1983 p. 6). This step appears rather more as a logical result of the necessity to accommodate domestic protection-seeking groups when pursuing a liberal foreign economic policy for reasons of state. On the other hand, the administration had somehow to reconcile this accommodating behaviour with its official position on trade policy which was to pronounce itself strongly in favour of free trade. Yoffie explains how this dilemma was solved by the US government:
The American answer ... was to revert to a VER. The Department of Commerce informed the American public on January 16, 1957, that Japan would "voluntarily" restrict its exports of cotton textiles and apparel to the United States for five years. This allowed the Americans to disavow responsibility for an agreement they actively negotiated.

Once this precedent was set by the United States, VERs proliferated. Many importing countries found export restraints to be an excellent mechanism for bypassing GATT regulations. (ibid, pp. 6-7)

In order to give the new institution international legitimacy, the US government in 1961 sponsored a conference which produced the first "Short-Term Arrangement" for textile VERs. A year after, thirty-two countries signed a "Long-Term Arrangement Regarding International Trade in Cotton Textiles". The seeds of what was later to become the Multifibre Arrangement (MFA) had been laid.

The reason for this "new protectionism" was a changing international environment, primarily the rise of efficient low-cost producers, first in Japan, later in the "first-tier" Newly Industrialising Countries (NICs) and most recently in the "second-tier" NICs in the Third world. This development was perceived as a threat to jobs in labour-intensive industries in the United States and elsewhere. Textile, clothing and apparel employed some 2.5 million workers at the time of the Japanese VER and represented not a marginal, but a considerable political power.

The textile example was followed some years later in other industry sectors. Between 1968 and 1981, the United States alone negotiated VERs and OMAs in steel, colour televisions, nonrubber footwear, and automobiles. The United States in fact took the lead in advancing managed trade and were followed by the EEC (later the European Community, EC). During the same period the two major economic powers took a number of managed trade actions, many of them in the form of VERs and OMAs, in the name of "free and orderly" trade. The argument frequently being made was that these arrangements were necessary in order to avoid a return to the protectionism of the 1930s. The United States continued and,
as we shall see below, stepped up the use of bilateralism during the 1980s.

To sum up, the steady growth of bilateral arrangements in the post-war period took place parallel to the liberalisation of trade in industrial manufactured goods organised through the OEEC (later OECD) and GATT. And the hegemon took the lead in promoting what Gilpin referred to as complementarities, at an earlier stage than he apparently realises. On the one hand, it continued to fight imperial or colonial-type preferences while at the same time compromising with the Europeans on the right to maintain regional free-trade or customs union arrangements. On the other hand, the hegemon introduced and used bilateralism for market-opening purposes like in the 1930s and later in order to enforce conditional and selective liberalisation of foreign markets. In the process it would protect industries facing increasing competition from abroad such as the auto industry.

These dual or multiple roles were compatible with and reflected well the foreign policy goals and its domestic political basis. Hull’s strategy was to establish the United States as a hegemon by using trade policy as part of foreign policy. Once established as hegemon, the United States would continue to press for liberalisation of markets. But it would at the same time, and for reasons of its overall international and foreign policy, compromise with foreign trading partners whose political support the US government needed and wanted. The overriding purpose was to promote a world system where there would be more influence for the new industrial leader, less for the "old" colonial countries. The strategy was to stabilize regimes favourable to the US government. Freeing trade would not be promoted at the cost of stabilizing political allies. In the 1970s the Nixon-Kissinger administration emphasized similar strategic considerations, but appeared willing to risk the destabilization of allies. When in the 1980s the Reagan-Bush administration positioned itself firmly behind IMF structural adjustment programmes, it challenged political stability in a number of Third world countries. When it imposed upon Japan the Structural Impediments Initiative, it challenged some of the
foundations of Japanese political culture. And in enforcing liberalisation of trade in agriculture in the GATT, it is asking not only French, but also Japanese, Korean, Swiss and Norwegian political cultures to tackle serious social dislocations.

4.3. Complex policy, periodic predominance.
Thus, the victory of the free-traders that was won in 1945-47, was a partial victory, won in exchange for concessions to both foreign and domestic interests. What tied mercantilism and liberalism together was the strategic doctrine of the United States and the fact that it had become the undisputed hegemon.

Although the debate on the hegemonic stability and hegemonic (US) decline hypotheses is not the target of the present paper, it is tempting to infer from the above that the hegemonic stability hypothesis is confusing the analysis and thus not tenable. It should be evaluated from the perspective of a multiple goal strategy:

The mature hegemon initiated and practised trade restriction as well as trade creation, protection as well as free trade. One may say that there was more than a difference in the degree of liberalism if the 1930s are compared with the 1960s. But as we saw in section 2, even such conclusions are being questioned. Employing as we do trade policy instruments as indicator, Tussie agrees with McKeown to question the whole notion of the post-World War II system being at all more liberal than the pre-war system. She also refutes the hegemonic stability hypothesis as an explanation of changes in trade policy. The roots of change she finds not in a waning hegemony, but in restructuring linked to changes in the financial and monetary system, and on the other hand, to the changes in world trade following the lowering of tariff levels (Tussie, 1984 and 1991).

This survey of US trade policy may be summarised in the form of periodisation, the purpose of which is to highlight the cyclical character of policy (Tab. 1). The Domestic interest group model is thus the most relevant perspective for the first

Table 1: Four periods in US foreign trade policy
3. Two (three) analytical models of trade politics.

There are at least two quite simple reasons why the paradox is less dramatic than received wisdom would have it: first, conceptual ambiguity and secondly, sectoral differentiation of the trade policy regime adopted by the major trading partners. Let us look at the first of these reasons in this section and return to the second below.

If trade policy were to be decided according to the longer-term perspective, one precondition would be that decision-making procedures and principles approximate those characteristic of the unitary rational actor model: there is a relatively constant and hierarchical preference structure, and the preferred goal is pursued in a rational manner (means follows logically from ends, decision-makers have full information on availability of alternatives and their consequences, etc). Neo-classical trade theory's assumption that free trade is preferred for reasons of global economic (resource) efficiency is based on this model; the assumption is also being widely made in research on international
trade issues by scholars belonging to economics or political science but even by political economists, in particular in North America. Although there are some notable exceptions, some of whom are mentioned in the introductory section, a number of recent contributions from this category of researchers have thus assumed that US authorities did and do follow free trade ends as a constant and clear priority during the post World War II period, whether for geopolitical (containment by offering economic growth of political allies), for structural (hegemonic stability theory), for institutional-ideological (Goldstein, 1988) or for other reasons. In a recent contribution Ruggie even claims that the United States throughout the post World War II period has been more multilateralist than any previous hegemonic power (1992). Since he is not offering any empirical support to validate the claim, one must assume that its status is that of an axiom or assumption: there must be something particular with the United States of modern times that makes it so multilateralist. The thesis is what may be termed a "simple institutionalist" explanation.

The unitary rational actor model scores high on being parsimonious, relatively easy to operationalize and is thus naturally attractive. On the other hand it scores generally speaking lower on validity. As we shall see later, there is a strong theoretical case for the rationality assumption e.g. represented by rational institutionalist models (Keohane, 1984). But its efficiency appeal (reduced transaction costs) are not sufficiently strong to overcome the incentive to manage trade. Rationality is bounded particularly in times of volatile structural and political change. Goal hierarchies assumed under the unitary actor model are being contested from "the inside" of the national political system concerned, by sectoral interests

55 See for example Keohane (1984), Conybeare (1987), Milner (1988) and others.

56 viz a number of contributions in the International Organization over the last years. This admittedly very brief and superfluous survey may do some injustice for instance to Milner who makes a very informative contribution on US trade policy in Bhagwati and Patrick, eds. (1990).
and by the electorate. Feelings and passion may influence decision-making heavily, such as when US politicians start pursuing the game of "Japan-bashing" not only as a tactical ploy in a bargaining context, or as a response to grass-roots sentiment, but out of conviction that they are right in doing so. Or Japanese politicians counterattack by calling for a stop of such practices not only because it is be-lieved to be unfounded, but because it hurts national culture and offends national and personal pride (Ishihara, 1989).

Changing priorities and change of policy may be a response to changes in the context. And in the 1970s and 1980s the context has indeed been changing. First, in terms of saliency: economic issues appear to take precedence over security thus reverting the preference ranking of political realism; secondly, as changes in market conditions with stagnating demand, surplus capacity and restructuring races; and thirdly as changes in the competitiveness and in the behaviour of competing actors. The assumptions of bounded rationality and complex actor, which I make, do not exclude the possibility that national authorities behave according to the principle of strategic interaction: "the ability of one participant to gain his ends is dependent to an important degree on the choices of decisions that the other participant will make." (Schelling, 1960:5). I shall offer some illustrations of strategic interaction below, but also show that under certain conditions actors do not behave according to that principle.

If they do not, they pursue the unilateralist pattern. If they do, they will normally behave according to some variant of the reciprocity principle. It is supposed to be multilaterally applicable in GATT in terms of the Most-favoured Nation principle; or it could be applied in a bilateral arrangement, or some "minilateral" or "plurilateral" framework (Wolter, 1986) as for instance when applied in a regional free-trade arrangement. The latter was formally accepted in the GATT as a de facto recognition of their existence prior to GATT. The proliferation and deepening of such regional arrangements presently, however, may well be a step - whether intended or not - towards
regionalization of the world system of production and trade. I shall comment that option below.

The behaviour of actors also vary according to whether they pursue cooperative or non-cooperative strategies or pursue a more open-ended strategy with respect to whether or not agreement should be sought. Finally, if the goal of trade policy generally is to preserve or increase market shares, the pursuit of such goal will lead to both protectionist and liberalising policy depending on the context, but above all on whether the purpose is to represent import-competing or export-dependent interests, respectively.

3.2. The models.
How may these conceptual and classificatory proposals be summarised and made operational in terms of an analytical model? The comments so far suggest not one, but two models which may be seen as competing analytical models, but which should rather be combined to form an additive explanatory model: the Hegemonic rivalry and the Interest group activation models.

Both depart from the assumption that trade policy is a response to change in international markets and/or a change in one's own position (competitiveness) in those markets. Both may thus combine market conditions with the economic competitiveness of the country (that is the branch or firm(s) concerned). If market demand is stagnant and/or the market share declines, the response is normally to seek trade diversion. This is the "simple" or traditional protection case. If on the other hand relative international competitiveness is increasing, or such competitiveness faces surplus capacity in foreign markets, trade creation is the typical response. If a country (or sector or firm) enjoys absolute competitiveness it would respond in that way irrespective of whether total demand is expanding, stagnant or declining.

The two do not exhaust the universe of relevant explanations of trade policy and thus not of analytical models, but we believe
them to be the most important and fruitful ones in accounting for
the present politics of international trade: \(^{57}\)

The Hegemonic rivalry model reflects the unitary actor
assumption, but is at the same time premised on bounded
rationality. Under this model trade policy is typically motivated
by some perceived collective interest, the "national interest".
Trade policy is foreign policy. It is a reflection of the
(changing) position of the country concerned in the international
division of labour. It may also be motivated by geopolitical
calculations: security or some other general foreign policy goal
is to be served. It could be the perceived need to balance a
deficit on the trade and/or current account; or it could be
derived from reasons associated with strategic trade policy \(^{58}\);
or the need to preserve some traditional industrial sector
considered as vital to the power and wealth of the nation (steel,
weapons industry).

Thus: Hegemonic rivalry reflects a major power’s trade policy
behaviour. It is a function of a cognition in and among the main
decision-making bodies that the position of that power in the
international system is threatened by the rise of (some) other
power(s), or its own ability to rise to a better position in that
system is prevented by such other power(s). It is characterized
by bounded rationality because it tends to narrow the scope and

\(^{57}\) In the larger report on which this article is based five
analytical models are referred to and discussed: Changing power
relations; National Interest; Domestic politics; Transnational-
ization; and Ideology. For the purpose of this article, the two
former are collapsed into one, Transnationalization is being
discussed, whereas Ideology is only indirectly discussed in the
text.

\(^{58}\) The term strategic trade policy is used in at least two
different although partly overlapping ways these days: for Lake
it is the game theoretical perspective which applies and which
makes strategic trade policy "policies contingent upon the
actions of other nation-states or explicitly intended to
manipulate the preferences and policies of others." (1988 I
p.33); for the mostly economic theory of strategic trade it
represents policy targeted on the forefront of technology-based
competition including industrial policy; see Krugman, 1986 and
J. David Richardson,
range of information and of policy options considered. Instead it favours simplified bureaucratic procedures and a concentration on the interaction with rivals. It would be the preserve of the executive to decide on and implement action. Rationality may be bounded for another reason as well: decision-makers develop a simplified cognitive map based on a "friend-foe" calculus.

The Interest group activation model is not to be associated with the unitary actor assumption, but on the contrary with complex actors. According to this model, decisions are the outcomes of the activities of organized, particular interests. Outcomes reflect the power that these interests represent in pluralist societies. It is typically the kind of decision-making procedure that allows particular interests to have a final say on trade policy outcomes whether or not these are compatible with some general principle of foreign (economic) policy. The process under this model is not necessarily the one typically suggested in theories of Public choice ("adding machine model" etc) (Baldwin, 1985) where numbers count. Rather the better organized and the more actively the interest group concerned is articulating its particular interest, as member of a "distributional coalition" or simply acting on its own, the more is it able to influence policy outcome.

There is a widespread tendency in studies of US trade policy to refer variations in trade policy to an institutional explanation. Simply put the explanation runs like this: interest groups work through Congress whereas the executive represents the national interest; and whenever protectionism occurs it is likely to occur as a result of the former. If scholarly work displays a more reflective and refined account, this at least is the popularized version which US administrations have communicated across the Atlantic. But even scholarly work appears to present this simplistic "basic" understanding when it concludes that the executive has upheld a consistent liberal and

59 As an example one single firm was able to convince the International Trade Commission of the United States to impose an import levy against a whole Norwegian export branch on charges of dumping (salmon case).
multilateralist policy over the post-World War II era (Goldstein, 1988; Ruggie, 1992).

Our own analysis comes to a different conclusion. There are three reasons for that: first, our analytical model is different; secondly, our data takes account of developments in the 1980s which few of the studies surveyed do; and thirdly, by linking the analytical model to trade politics in the 1970s and 1980s one may observe that the co-existence of liberalising and protectionist practice is to some extent a function of sectoral differences and of a certain division of labour among policy-makers. The differences in policy preferences between the Congress and the Executive are less than what is usually claimed. They are not captured by the institutionalist approach.

The Interest group activation model may be linked to the Bureaucratic politics model in which several different decision-making bodies compete in order to decide the outcome. In pluralist state structures, public institutions may link up with "their" interest groups, or become captured by them, developing thus some form of corporatist or segmented state-society sub-structures. They run policy formation on the basis of sectoral, cross-institutional agreement on factors such as: how the problem should be defined, what values and cognitive maps are seen as decisive, who are entitled to influence decisions, and what knowledge about the subject matter is deemed authoritative. Put in other terms, corporatism or policy segmentation as a result of the process of domestic interest articulation, makes the state "non-autonomous".

The interdependence perspective or what may be referred to as the Transnationalisation model is the source of Milner's main

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60 Refers to Allison's now classical typology (1969 and 1971) and the following proposal to collapse the two models into one (Allison and Halperin, 1972). For a survey of follow-up applications and the critique of Allison, see Bendor and Hammond, 1992.

61 The theory of the "segmented state" was developed in an exchange between American and Scandinavian scholars on the basis of among others Stein Rokkan's work; see Cohen, March and Olsen, 1972.
explanation. For her it is an alternative to systemic-structural and domestic politics explanations of trade policy. In order to support her point, she observes a difference between the amount of protectionism in the 1920s and in the 1970s. What she offers is in fact a contrafactual argument: She assumes gross similarity between the situation of the 1920s and that of the 1970s with respect to the degree of economic distress and declining hegemony; she finds that there was a "small net increase in protection" between the 1960s and the 1970s; but she concludes that protectionism in the 1970s and 1980s did not grow "rampantly, as it did in the 1920s" and as one would have expected given the similarities of the two epochs (Milner, 1988:357). The reason according to her is mainly to be found in the increased economic interdependence between economies in the post-World War II period. Firms with export interests, high multinationality and global intra-firm trade will be less interested in protection than firms that are more domestically oriented. The former get a stake in an open, liberal economy.

The importance which she accords the transnationalization hypothesis is overstated and the role she assigns it misplaced. The perspective which the hypothesis represents, is valid when it comes to accounting for a relative shift of power from national governments working inter-governmental relationships to transnational actors (Julius, 1990; Stopford and Strange, 1991). But it should not be supported by an exaggerated emphasis on the structural and economic similarities of the 1920s and 1970s: we were nowhere near the disastrous economic recession in the 1970s and 1980s that one experienced in the late 1920s and early 1930s. Moreover, if the dependent variable is not simply and only protectionism (import barriers), but managed trade, then the periodized difference that she suggests becomes rather dubious. If financial and industrial globalisation has opened up national economies, as they no doubt have, the increased diversity and complexity of economies at least in the industrialized world have meant a more varied response to the costs of globalisation. The global firm may resist tariffs and other barriers that increase transaction costs, but they may very well promote industrial or
strategic trade policy, strategic alliances and barriers to the entry of newcomers including to third countries competing with their *intra-firm* trade, etc. Globalised firms, in other words, are for an open economy, but not necessarily liberal trade. They oppose home-market protection of the sort that home-market based firms want, but they may seek protection of their *intra-firm* trade against the competition of third countries.

One additional reason *why* the transnationalization factor may be kept constant is the assumption of strong sectoral differences. Those sectors which are particularly strongly advocating managed trade are probably those which are least characterized by globalised production and markets. We shall return to discuss the relevance of the model towards the end.

Finally it should be pointed out that we open up for the possibility that the two other models, Hegemonic rivalry and Interest group activation, may in fact be fruitfully combined. For the purpose of the empirical analysis we shall however treat them separately, returning to the question of one combined model towards the end.

In order to support the choice of analytical models, and in order to show how the two (three) models have differing relative explanatory power in different time periods, it is necessary to offer a short historical overview of the evolution of trade policy of the United States.

### 4. The case of the United States: historical background.

During the 1920s the liberalising tendency in US foreign trade that started in the late 1880s (Lake, 1988) was reversed. The protectionist tendency, culminating with the *Smoot-Hawley Tariff* in 1930, dominated Congress and the Executive (Schattschneider, 1935). In fighting with the liberalising forces the distributive coalition behind the tendency won easily. The outcome was a long series of bilateral trade wars - the "Smoot-Hawley Tariff Wars" (Conybeare, 1987). From the introduction of the Reciprocal Trade Agreements Act of 1934 (RTAA) on, the new coalition of realist foreign policy makers and trade liberals started to take the lead
in policy-making although, as we shall see, not always and far from totally.

4.1. From Hull to Harry Truman.
The most active, and probably most decisive, force behind this change was found within the executive branch. And apparently its goal was first of all one of foreign policy. It is often suggested that one important reason for the change was the transition from a protectionist Republican to a liberalizing Democratic administration. The liberal transition was personified in Cordell Hull who became Foreign Secretary in 1933 (Diebold, 1988). But if Hull was a liberal, he was even more a foreign politician seeking to promote the rise to hegemonic power of the United States, making use of the idea of free trade to support the goal. Partisan politics did not play a major role in shaping US trade policy.

Hull was the mastermind of making the linkage between politics and the economy during those years of radical trade policy change. He certainly did not act as if trade policy was not also at the same time domestic policy. He had to combine with domestic interests in order to get his new policy through not only Congress, but the Executive as well. As Chairman of the Democratic Party before becoming Secretary, he was in a good position to forge new coalitions. His strategy was to adapt to some important domestic interest seeking increased revenue - the goal normally associated with the domestic interest factor. Logically he chose export interests related to agriculture which had a large surplus to dispose of, and he had planned to dispose of it by using conditional MFN and barter. He then got the support of not only the Secretary of Agriculture, but the President as well since Hull’s strategy delivered increased political support from the Southern states.

Thus, trade policy was and is not only foreign policy. It is also domestic policy reflecting the interests of social formations, and particularly those well organized, in the private sector. Such an interpretation is in contradiction with the "statist" or implicit "state autonomy" argument of Krasner.
According to that argument the state has political goals of its own which are, even in the case of weaker states, detached from economic interests of private actors (Krasner, 1978 and 1984). I find Lake's explanatory effort more convincing. He employs two variables, economic size and productivity (change) to account for change in trade policy and explains the shift of US policy and the mix of bilateralism and unilateralsm as a function of rising US power. However, Lake's theory is too structuralist and too narrow in its account of political and institutional factors. And most important, it fails to predict trade policy change under the impact of structural change.

The point of interest in terms of the causal model should be inter alia to identify under what conditions the one element takes precedence over the other. But it is not a fruitful approach to assume that the one can do without the other. In fact, the model is additive rather than exclusive: explanatory variables not only combine, but represent an additive explanation of policy (as opposed to a substitute one). 62

In the 1930s, US policy-makers at the time, correctly or not, looked upon the United Kingdom as much more protectionist than the US had ever been even under Smoot-Hawley conditions (Diebold, 1988). The first bilateral agreements sought and made by the US government thus was aimed as an attack on British Imperial Preference (Rowland, 1975). Bilateralism was indirectly or directly the emerging hegemon's strategy to compete with the declining hegemon who was struggling to resist decline. Under the international conditions that prevailed at the time, no agreement could be made on multilateralising trade to open up Europe and its preferential trade areas for competition from the increasingly efficient US producers. In fact the US government refused to make a monetary arrangement proposed by the British whereby monetary policy would be coordinated multilaterally. The alternative for the US Executive was to enforce liberalization through bilateral bargaining and the resulting arrangements

62 For a defence and use of this method, see Keohane, 1984 and Conybeare, 1987 respectively.
Several key policy-makers in the Truman Administration were not of the opinion that a more liberal trade would be economically advantageous, but rather more of a cost which the United States as the leading power would have to carry in order to achieve other and more important ends, such as containment of world communism. See Pollard, 1985; Wilkinson, 1960.

The 1920s and 1930s therefore were basically a period of "trade wars" characterized by many nation-states acting out of national (and domestic group) interest. They were practising a sort of "collective free-riding" if such a metaphor can be used. And the biggest free-rider of all was the rising hegemon, the United States (Conybeare, 1987).

The first part of the post-WW II period continues to reflect one important tendency of the pre-war period: that international and foreign political goals combine with domestic political and industry interests. But now foreign policy takes precedence over domestic interests while not becoming independent of these interests and their support at any point. The change became visible over a period of three years, 1945-47. During them the US administration developed the doctrine of foreign policy the foundation of which had been laid by Hull, and which now was further developed by Kennan and others. The doctrine developed an idea of liberal trade that was not primarily based on free trade and economic efficiency considerations, but on the premise that liberalization of trade was a concession to be made to foreign political partners for strategic, not for economic reasons. \(^{63}\) Trade policy was to become part of an overall foreign policy guided by the new strategic doctrine (Gaddis, 1982). Cooperation was at its height. Admittedly, it was still a selective matter as the cooperative regime included only the democratic world, but the policy of the hegemon was conciliatory towards allies and friends rather than conflictual.

One factor that helped create this relative shift of emphasis was the introduction of certain changes in the procedures of trade policy making following from the RTAA. These changes reduced the influence of distributive domestic politics which,

\(^{63}\) Several key policy-makers in the Truman Administration were not of the opinion that a more liberal trade would be economically advantageous, but rather more of a cost which the United States as the leading power would have to carry in order to achieve other and more important ends, such as containment of world communism. See Pollard, 1985; Wilkinson, 1960.
due to mechanisms described and explained by Lowi (1964) and Olson (1965), had almost inevitably produced protection as the outcome. An important aspect of the reorganization was transfer of part of the trade policy responsibility from Congress to the executive. Following the principle of universal application of the right to protection (or universalism applied domestically) prior to 1934, each individual group interest demanded and got protection without the interference of other groups.

The RTAA changed these procedures radically. The new principle was regulation. It was practised in two parts: one regulating the degree of tariff-cutting authority available to the executive; the other regulating the degree of and conditions for access to administered protection (for which there were specific mechanisms). The latter was based on the principle of "no serious injury" (Wilkinson, 1960). It still gave those seeking protection a right to it provided certain conditions were met. But their chances of getting it were much reduced due to what may be referred to as the "diffusion of issues" mechanism:

As the system moved from distributive to regulatory politics, the domestic peace that would rule under a system whereby everybody got his right was broken and conflicts arose. Under the new system, the issues were much more broadly defined than under the previous one. The logical advantage of protectionist interests in a distributive system were more easily counter-balanced by liberalising interests.

The advantages of the new system with diffuse issue areas in the trade policy making process were not only showing up for economic liberals and the export interests. Perhaps the most decisive effect was to offer policy-makers who wanted a high degree of freedom of action, discretion in the application of the rules. Those economic interests who were particularly well organized and cried most loudly for protection could still be accommodated. The rest would not be well enough informed, or sufficiently interested (or both) to follow the trade practice closely. They would either not notice or tacitly accept a mix of policies that would sometimes give protection, sometimes liberalising outcomes. This new regime also offered the state
greater flexibility to accomodate domestic interests with foreign policy goals.

The purpose of the present paper is not to evaluate the outcomes of trade policy processes, but to contribute to their explanation. It is thus not an exercise in normative theory. If on the other hand, we were to attempt to make an exercise in prediction, what prospects are there for managed trade in general and bilateralism in particular?

Before we turn to that question, we ought to comment on the fruitfulness of the two models applied. Both the historical overview and the sectoral analyses show the usefulness of applying both separately. But as the historical cut also shows the validity of the conclusions made increases if they are combined. A more general theory which is to apply inter-temporally and cross-sectorally however clearly needs to integrate the two.

Let us start approaching the prediction enterprise by commenting on some of the questions that arise from the above: Will managed trade prevail? Will it increase? If a new multilateral regime were to be achieved finally, what would that really imply for the scope and degree of managed trade? A successful conclusion of the Uruguay Round - successful meaning an outcome close to the Dunkel proposal - does not make managed trade wither away. Will the logic of politics prevail over the market thus making the liberalisation of the Uruguay Round obsolete at the moment when an agreement eventually is made? Is it possible to conceive of a "compromise" between the various forms, an orderly multilateral management of bilateralisms and unilateralisms as it were (modelled on the MFA for example)?

These are some of the questions that should be the subject of more research in the future. The answer will depend crucially on the outcome of debates over the following issues: - the issue of self-regulating vs. managed markets that is the battle over normative issues and the philosophical and
ideological underpinnings of trade policy which was prominent in the 1980s and which is still influential - the deeper issue of what is the correct economic policy for the OECD area to reduce overcapacity and thus unemployment and thus ease some of the most important reasons for managing trade - the scope, domain and the rate of structural adjustment of economies and stagnant sectors and the ability of countries to transform their economies into new production systems based on new technologies and at the same time preserve employment and welfare, and last but not least - the evolution of the competition among the major economic powers that is caused by factors associated with national interest and the strategy it motivates.

I shall concentrate my comments on the latter, thus giving only a partial answer to the other issues mentioned above.

The G7 has not proven very succesful in responding to the problems of interdependence by reducing antagonism among its members and making a more cooperative coordination of policy. A certain economic convergence has not been matched by policy coordination. Will this change, or can it change? Very much of the answer lies in the type of lessons that we may draw from the recent past.

The history of the last three quarters of a century shows us that the rising hegemon uses bilateralism in order to promote her world political status and policy. In order to mobilise and maintain political support at home, the rising hegemon supports in the process domestic interests so that they reach their particular goals, associated with increasing or stable revenue. As the United States protected group and sector interests from being affected by the opening up of trade in the 1930s and later, so does Japan protect her farmers and small enterprises as she takes off in the 1970s and continues to do so today.

The mature hegemon provides conditional collective goods (Marshall Aid and security for her allies) but also uses her power to protect certain sectors against the threat of unemployment, viz. the policy of the United States in the 1950s and 1960s. And she uses it to accomodate foreign clients who need
"positive discrimination" for various reasons and who get it for reasons having to do with the foreign policy goals of the hegemon. 64

What can then be said about a stagnant major power or a hegemonic power threatened with decline?

In the case of the EC, its main motive for adopting the Single European Act and launching the Internal Market was to resist declinist tendencies, not the least the very perception of decline. On the issue of whether there is US decline or not our position is that there has been no absolute, but a relative decline, mainly due to sector-specific loss of competitiveness for the post-war hegemon. On that assumption it is proposed that the United States is using managed trade and bilateralism increasingly to defend itself against the consequences of this loss.

Bilateralism and discriminating unilateralism in trade were policy measures which the US administration used along with, but politically subordinated to, the overall goals it pursued as a hegemon: multilateralism and non-discriminatory unilateralism (in compliance with the GATT escape clause). This position and priority characterized the 1950-70 period. The change of policy manifested itself when the US administration unilaterally delinked from the fixed exchange rate system in 1971. From then on the United States started to use bilateralism more as a primary means of foreign (trade) policy. It no longer was primarily motivated by general foreign policy goals, holding the need to accommodate domestic groups as secondary to these concerns. Nor is bilateralism being used primarily as a way of paving way for multilateralism as one may claim - maybe ex post facto - was the case during the 1930s (Schott, 1989).

Now priorities were almost reversed. And the purpose was to resist the erosion in the competitiveness of the United States in world markets. Hegemonic rivalry had re-entered those markets. 64

64 Viz. the US support of the International Coffee Agreement that was motivated by foreign policy interests in stabilizing the position of LA countries as part of the fight against world communism. See Krasner, 1978.
The EC and Japan appear to have responded in kind, the former early (agricultural disputes), the latter more recently (autos, chips and finally rice imports). It is still possible, but has become more difficult than before for the United States to have its will in bargaining with the rivals. On the other hand, one may possibly observe that the three major economic powers have entered into or are about to learn to behave in a structure of strategic interaction. US-Japanese relations are still reflecting antagonistic interdependence, but bilateral bargaining has become the rule rather than the exception. Now the EC has demanded, and Japan recently echoed EC expectations, that they also enter into similar type of exchanges (Financial Times, 15 Dec 1992). This leaves the US-EC relationship, somewhat cold from fresh exchanges over agricultural trade, to recover - or to continue to erupt into "trade wars" as in the past. A more complex bargaining structure among The Three is emerging and seems likely to stay.

The Three may in the process learn by doing, in particular get to know the other parties' preference structure and bottom-lines of bargaining beyond which they are unable to go for economic or political reasons (or both). In the process they may realize a common interest in avoiding mutually unacceptable outcomes; in other words, they need not end up in a straightforward Prisoner's Dilemma "trade war" where tit-for-tat rules, but rather find a viable system of informed and partly cooperative bargaining more attractive.

As far as the three's position with respect to their relative use of managed as opposed to free trade is concerned, our analysis indicates that they have in fact converged: Japan has become less, the United States more inclined to manage trade during the last two decades, the EC remaining more or less in a constant position. For Japan it is mainly a matter of having learned the lessons of vulnerability: its increasing dependence on extra-regional markets has made it gradually open up foreign trade. If the two others were to agree finally to settle for a more multilateralist trade system, Japan would have to accept it no matter how much its rice farmers would protest.
But such agreement is less likely now than it was when the Uruguay Round started in 1986. The EC’s freeing of intra-regional trade is likely to make it even more oriented towards itself than it was when the Unity Act was passed. It is the only one of the three regions concerned that has really been regionalizing its foreign trade during the last decades. It could very well live with free trade at home and managed trade with the rest of the world.

The United States appears bent to continue to wage its two-front war. Against Japan the "fair traders" will continue to pressure for trade-creating measures in order to promote the interests of competitive hi-tech branches and for a reciprocity in investment opportunities - a scenario that has become more, not less likely with the change of administration (Tyson, 1992). Against the EC its "free traders" will continue to pressure for openings to the EC's market opportunities, old and new. And last but not least, its coalition of managed trade advocates and free traders will push regionalism in that they will continue to work to establish the NAFTA as a wider domestic market for US business. The change of administrations in the United States appears to make this scenario more, not less likely. Thus there will be regional free trade within and bilateral managed trade between the two regions. Japan will be least able to secure a regional base that corresponds to those of the two others, and it will therefore be out to bargain for entry to their markets even more than it has done in the past.

May and will this scenario be proven not to hold? The GATT review urges Japan to turn away from bilateralism to make more often and consistent use of the GATT process. And the EC is urged not to develop the Internal Market into a Festung Europa. But more important or in fact decisive is the answer to the GATT secretariat's question to the United States (1992): will it oblige by a new multilateral regime if it were to be agreed and implemented finally, or will it let "unilateral bilateralism" represented by the 301 procedures and "regional bilateralism"

56 Detailed statistical analysis is provided in Hveem, 1993.
represented by NAFTA take precedence? Again the change of administration makes the latter appear the more likely outcome.

The optimal alternative scenario is probably one where multilateralism becomes strengthened enough to modify the use of political leverage, but accommodates to a great degree of bilateral bargaining in particular between regional institutions. Such a scenario is possible but not very likely.

If the Three do not manage to establish a viable compromise between multilateralism and managed trade, then the transnationalization hypothesis may prevail or the "sovereignty at bay" thesis finally be proven correct: decision-making over market allocation and similar issues of international political economy will de facto be effectuated by transnational corporations through their international operations, in their bargaining with governments, and in the alliances and cartels which they make between themselves. Or one may opt for a tripartite bargaining structure (Stopford and Strange, 1991) where the transnational corporations, home and host governments bargain over issues of allocation offering corporate leaders a strong bargaining hand if governments are unable to cooperate.

Maybe one important prerequisite for that cooperation to re-occur is not a return to hegemony (as the hegemonic stability theory would have it) but a reconciliation of the state with the market. Maybe the answer therefore is found in re-reading Polanyi.

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In that case the type of global systemic approach developed by the author at an earlier stage may become reinvigorated; see Hveem, 1973.


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Appendix

Classification of managed trade forms