

MULTILATERAL TRADE LIBERALISATION AND THE ROLE OF TRADE DIPLOMACY IN THE 1990s

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*Working Paper 7/04
March 2004*

**DEPARTMENT OF MANAGEMENT
WORKING PAPER SERIES
ISSN 1327-5216**



Abstract

This paper investigates the relationship between the growing significance of trade diplomacy in multilateral trade negotiations and the changes in the relative bargaining position of the major players, the US and the EC. As the variables of the negotiation equation had become complex in the later GATT trade rounds, middle-power trade diplomacy became a major force in influencing the outcomes of negotiations. It is argued that there is an inverse relationship between the US leadership and the increasing role of trade diplomacy in GATT multilateral trade negotiations.

MULTILATERAL TRADE LIBERALISATION AND THE ROLE OF TRADE DIPLOMACY IN THE 1990s

The 1990s have witnessed far-reaching changes in the international trading system. The ability of the GATT system to address trade issues was questioned the problems encountered during the Uruguay Round (1986-1993) suggested that the very principles of multilateral free trade, which the post-War economic order had attempted to promote through GATT, were at risk. Unlike in the previous GATT trade rounds, trade diplomacy played a prominent role in the successful completion of the Uruguay Round negotiations. This paper examines how the significance of trade diplomacy became more apparent with the increasing importance of the emerging issues in the international economy in the 1990s which have considerable bearing on trade negotiations – regionalism, contentious issues of trade, agriculture in particular, and the growing number of players. It is argued that there is an inverse relationship between the United States (US) leadership and the increasing role of trade diplomacy in GATT multilateral trade negotiations.

The first section of the paper examines the significance of trade diplomacy in GATT multilateral trade negotiations. Detailing the main characteristics of trade diplomacy, the second section makes evident the fact that, since the late-1970s, diplomacy has been evolving as an important component in GATT trade negotiations. It examines the major problems of the GATT multilateral trade negotiations so that the growing importance of trade diplomacy can better be understood. The lack of progress in agricultural trade reforms and the growing significance of emerging players in GATT trade negotiations are discussed in the third section. The significance of the emerging variables of the GATT trade negotiation equation and the significance of diplomacy in the successful completion of the Uruguay Round are examined in section four. The role played by the Cairns Group in facilitating agricultural trade liberalisation in the Round is of particular interest. The final section concludes the paper.

GATT MULTILATERAL TRADE NEGOTIATIONS AND TRADE DIPLOMACY

The experience of the previous GATT trade rounds reveal the various difficulties that the post-War multilateral trade liberalisation process had to encounter in strengthening rule-based liberal free trade. Multilateral negotiations involve a number of participants and hence require a co-operative approach to eliminate trade barriers. As trade becomes increasingly important, both small and large countries have an incentive to co-operate in promoting a less restricted international trading system. Fostering co-operation through an institution or regime, countries could avoid the ‘prisoners dilemma’ (see Garret 1992). Through negotiations partners agree on rules and procedures in developing a systematic approach to addressing the main issues of trade liberalisation. Diplomacy could play a key role in trade negotiations in strengthening co-operative endeavours which would narrow the differences between the participants and reach a consensus on key issues in negotiation agenda.

With the extensive implementation of trade liberalisation policies, the domestic economy is increasingly exposed to intense international competition. Although some sectors of the economy may benefit from liberalisation, governments cannot ignore the protests from the disadvantaged sectors and industries. Many countries tend to protect some sectors for reasons other than economic considerations such as national security, protecting public welfare or maintaining social harmony. Hence, removing trade restrictions has always been a complex political and social issue (Hoekman and Kostecki 1997: 23). The post-War economic order embraces ‘embedded liberalism’, a compromise that recognises the conflicting imperatives which governments face in pursuing liberalisation (Ruggie 1982). Explaining Ruggie’s argument on GATT further, Lipton (1982: 426) comments: ‘Its fundamental institutional logic - and crucial source of its political stability - is that it facilitates openness without ignoring domestic aspects of trade policy’. In practice, therefore, the GATT multilateral trade negotiations are confronted with the diverse political concerns of individual players which requires an efficient system of bargaining in order to facilitate outcomes.

As trade liberalisation involves a considerable adjustment of economic and social activities in individual countries, liberalisation efforts are frequently confronted with various lobbies, which attempt to resist these changes and safeguard their own interests. The differences arising from conflicting trade interests between parties create difficulties in the bargaining, which sometimes cause delays or breakdowns in multilateral

negotiations. Diplomacy can play an important part in identifying the areas which cause such differences so that negotiating parties would be able to narrow these differences and eventually reach a consensus. It also can play a key role in exploring avenues which would enhance co-operative approaches leading to further liberalisation. In trade negotiations, therefore, the conventional notion that 'diplomacy is a war by another means' (Nicolson 1963: 25) is less relevant.

According to the definition of the American Academy of Political and Social Sciences diplomacy carries the policies formulated by individual countries across international frontiers and cultures in order to give effect to the aims and goals, implicit and explicit (Reychler 1979: 2). The International Relations Dictionary (Plano and Olton 1982: 234) defines diplomacy as the practice of conducting relations between states through official representations which provides one of the most effective avenues open to individual states for strengthening an orderly system of international relations. As the role of the state has changed considerably with rapid globalisation and as a result of the end of the Cold War, not only the relations between states, but also the activities of other agents in the international economy such as MNCs, regional organisations and area or issue-specific coalitions have become increasingly important in determining international relations. In this discussion, diplomacy is used to mean the art of persuasion and skill of dealing with people, groups or organisations, which represent diverse interests on various issues, in order to convince them to seek co-operative solutions.

In practice, two types of diplomacy can be identified - first track and second track. First track refers to traditional diplomacy which is generally known as the diplomacy of governments. It is mainly aimed at increasing the effectiveness of the foreign relations of individual governments. Professional diplomats are the main actors there. Second track diplomacy acknowledges that non-governmental channels have now begun to play an important role in international relations (Evans G. 1990: 136-140). It demonstrates that the role of non-professional diplomats such as politicians and academics has become more apparent in the active conduct of foreign relations (Poullada 1974: 94).

In general, diplomacy facilitates all types of trade negotiations - bilateral, regional and multilateral - but as the negotiating parties grow in number and the issues that have to be addressed increase, the role of trade diplomacy becomes even more significant. Table 1 shows the various modes of trade liberalisation and possible roles that diplomacy can play. The unilateral approach does not require trade negotiations with other countries, but it involves the problem of free riding which may present domestic obstacles to liberalisation. Hence, a country which takes a unilateral approach needs to convince other countries to follow suit. The bilateral approach attempts to liberalise some sectors but countries are in a position to select the most favourable, and politically less sensitive, ones. In practice, therefore, countries prefer unilateral and bilateral liberalisation where they can tolerate the problem of free-riding and domestic resistance. Therefore, trade diplomacy appears to play only a limited role. Here, increasing awareness of the advantages of trade liberalisation is the main concern.

In the regional approach, the nature of regional arrangements decides the extent of the liberalisation agenda and the administrative mechanisms that deal with the liberalisation process. For instance, the EC* represents a most comprehensive administrative mechanism that determines the Community's trade liberalisation agenda. The evolution of the EC has resulted in a very strong bureaucracy which has been most influential in delaying reforms proposed by various GATT trade rounds. As most of the other regional arrangements were less successful, and hence the experience of the EC cannot be generalised, but it could be argued that in regional attempts, the role of trade diplomacy is mainly concerned with the facilitation of trade liberalisation within the region. For instance, it can play a much more positive role in liberalisation by identifying sectors according to the relative merits of market opening programs.

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Table 1 about here
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* When the single market of Europe came into effect in 1992 after the Maastricht Treaty the European Community, with an expanded membership, was renamed European Union (EU).

In contrast to the other liberalisation approaches discussed above, multilateral negotiations deal with multi-issue, multi-party and multi-stage efforts. Negotiation process comprises a number of stages: initiation, agenda setting, negotiation, final agreement and post-negotiations or implementation. Each stage of negotiation requires continuous and collective efforts to move forward to reach a compromise because in the process it is always possible for various new difficulties to surface, thus delaying negotiations and devaluing their outcomes. To be more meaningful and effective, negotiations should be held at regular intervals. The experience of the GATT trade rounds, which is discussed in the following sections, highlights the difficulties in achieving consensus on trade reforms.

The main features of multilateral trade negotiations under the GATT and the problems associated with the negotiations process, shown in Table 2, suggests that it is a kind of ‘game’ which involves a large number of issues, parties and stages. The multi-faceted nature of the game indicates that individual players have to pursue a cooperative approach in order to achieve satisfactory outcomes. Since every player attempts to improve on the status quo, all have to establish their initial positions in the negotiation forum. The fact that each player needs to rank issues and establish preferences at the domestic level calls for diplomatic skills in order to present an individual country’s preferences convincingly to the negotiation forum. Setting the agenda for multilateral negotiations demonstrates the common effort that all players attempt to pursue. As negotiations represent a process of exchanges which show a large number of requests and offers, parties have to strike a balance between trade-offs so that a common agenda can be finalised. The process sometimes takes a long time. The agenda of the Uruguay Round took five years to finalise. The main characteristics of the GATT negotiations discussed below explain the complex nature of trade negotiations and the role of diplomacy in facilitating multilateral negotiations.

Trade diplomacy improves the participants’ opportunities to make concessions during negotiations because it creates a more sensible atmosphere in which to discuss difficult issues. In multilateral negotiations, a greater awareness of the efficacy of cooperative attempts is paramount. The comment made by Winham (1986: 371) is relevant in this regard. He states ‘The essence of multilateral negotiation is that what other parties do between themselves affects one’s own position with each of them, and hence ultimately affects one’s own interests’. The wisdom of strengthening co-operation between trading partners and safeguarding the principle of multilateralism becomes even more important as tradable commodities and services grow and more and more countries attempt to increase their export opportunities. Since the 1970s many advanced countries have attempted to impose several non-tariff barriers (NTBs) in order to protect their domestic industries and increase exports. New issues and problems arising from globalisation and increasing interest in regionalism, emphasise the need to explore fresh avenues leading to further trade liberalisation within a co-operative multilateral framework.

Table 2 about here

Trade diplomacy is not necessarily limited to the activities of professional diplomats. The success of the process depends, among other things, on the availability of information about the different aspects of negotiations and the strategies pursued by participants to overcome difficulties in order to enhance co-operative efforts. Here, the role which academics, politicians, bureaucrats and research organisations play in negotiations is even more important. Research done by the OECD and the Australian Bureau of Agriculture and Resource Economics (ABARE) was instrumental in generating greater awareness of the burdens of the existing agricultural support policies in the advanced countries which have not changed since the 1950s and created much pressure to reform these protection policies in the 1980s (see OECD 1999; Roberts, Poubury, Andrews and Fisher 1999; ABARE 1988). Moreover, the nature of the information provided by government departments on various industry support policies seems to be influential in determining the preferences of trade liberalisation (Banks 1998: 151). This information is vital for trade diplomacy because greater awareness of the issues under negotiation is crucial for reaching constructive outcomes.

Moreover, the influence and the nature of the dominant members’ attitudes towards trade policy reforms create problems as well as opportunities for the liberalisation process. The role of hegemony in multilateral negotiations has attracted much attention in this regard. For instance, the presence of a dominant power can

facilitate multilateral trade negotiations. As is discussed in the following sections, the US was instrumental in liberalising the manufacturing sector during the first two decades of the GATT regime and trade diplomacy played a very marginal role there. However, there are some doubts on the efficacy of the multilateral approach when the key players choose to disregard the multilateral principles or rules in order to deal with domestic problems. The rise of creative forms of protection in the 1980s, such as voluntary export restrictions (VERs), sought by the US, is a case in point (see Rowley, Thorbeck, and Wagner 1995).

It is also argued that the absence of such a power would be beneficial to the GATT regime because all players have an interest in maintaining co-operation, that is, enforcing rules (Hoekman and Kostecki 1997: 11). This does not mean that the power of dominant players can be ignored, rather it suggests that by promoting co-operation between major players and other participants, some factors which weaken multilateral principles would be avoided. As revealed by the experience of the Uruguay Round, discussed in the following sections, trade diplomacy played a very positive role in bringing the negotiations to a successful conclusion. It facilitated the negotiation process by removing the deadlocks caused by the wide differences between the US and the EU on the main trade issues and coalition-building between participants, and so forcing the major players to reach a compromise.

The four trade liberalisation modes shown in Table 1 provide main characteristics of the different aspects of trade liberalisation which provide more insights into the GATT negotiating mechanism. The GATT represents a multilateral agreement, but it has embraced unilateral, bilateral and regional modes in dealing with trade liberalisation agendas proposed by various trade rounds. In practice, this phenomenon has significantly influenced the final outcomes of GATT trade rounds diminishing its efficacy in multilateral negotiations.

There are two main approaches to multilateral trade liberalisation, rules-based and results-oriented. While the former is mainly concerned with negotiations leading to co-operative outcomes, the latter promotes negotiated arrangements on the volume of trade and price settings. However, power domination is likely in both approaches. The main characteristics given Table 1, indicate that multilateral negotiations prefer the rules-based approach because it provides broader guidelines which all participants - key players as well as small ones - need to take into account in pursuing trade policies.

The main objectives of the GATT are to promote and guarantee stable conditions of market access through a set of rules, multilateral negotiations, and a dispute settlement system. It has played a major role in developing a multilateral framework for the management of the trading regime that enhances closer trade policy co-ordination between contracting parties (GATT 1969, 1983; Low 1993). It operates on the basis of consensus, while bargaining and deal making play a central role in the negotiation process. The GATT procedure provides two avenues to deal with domestic as well as international aspects of trade reforms. Firstly, it promotes tariff-only protection, non-discrimination and most favoured nation (MFN) status, which constitutes the conditions of market access. These provisions lend support to the smaller players in multilateral negotiations in their bilateral dealings with the major players (Higgott 1992: 127). Secondly, GATT supports the principle of reciprocity. It was expected that the reciprocity requirement would create 'countervailing political forces to those domestic interests resisting liberalisation' (Banks 1998: 151).

The GATT procedure represents a special market exchange mechanism and represents a complex negotiation process. An MTN is a 'market' in the sense that participants come together to exchange market access commitments, which reflects their desire to lower trade barriers on a reciprocal basis. It means that contracting parties are prepared to grant concessions to each other within the GATT code of conduct. In general, the GATT rules specify how contracting parties are to maintain a balance between domestic objectives, that are related to the activities of domestic markets and industries, and the priorities of multilateral free trade. Trade negotiations take place between the contracting parties which have predominant production and trade interests in particular product categories. The initial step in trade negotiations is that two contracting parties present each other with lists of requests and offers. Requests indicate what the negotiation parties want in terms of liberalisation by trading partners, while offers refer to what they are prepared to liberalise themselves. Negotiations are centered on achieving a bilaterally balanced exchange of concessions, which refer to the contracting parties' commitments to reduce/eliminate trade barriers. Through mutual bargaining, negotiators attempt to arrive at a 'balanced' or compromise

package. In accordance with the MFN clause, concessions agreed at a bilateral level are then granted to all contracting parties. Through incremental trade liberalisation, improvements in market access are achieved. Tariffs are then bound in schedules of concessions that form an integral part of the GATT. Such tariff bindings can be negotiated, but any increase in a bound tariff must be compensated for by a new or reduced tariff binding on some other product (Rowley et al. 1995: 302).

The role of bargaining has become the most prominent dimension of the GATT regime. As contracting parties represent diverse bargaining positions, it is likely that the influence of internal political considerations on each contracting party plays a key role in negotiations. However, under the GATT regime these considerations are tempered by multilateral rules and expectations regarding the actions of other negotiating parties. Hence, the bargaining represents a twin process in which contracting parties attempt to reform their domestic trade policies within a broad multilateral framework. Likewise, strengthening the effectiveness of the bargaining process becomes even more important, especially as the number of contracting parties and the trade issues under the purview of the GATT increase. Over time, the GATT has developed a comprehensive negotiation mechanism in order to deal with the growing trade policy issues in multilateral trade.

There are two key points that demonstrate the importance of trade diplomacy in multilateral trade negotiations. Firstly, despite the fact that achieving consensus is an integral part of the negotiation mechanism, decision-making in GATT is necessarily influenced by the relative strength of the GATT contracting parties. Therefore, the effectiveness of trade diplomacy in presenting key players' trade preferences more forcefully plays a crucial role in determining the outcomes of negotiations. Secondly, the importance of trade diplomacy is reflected in the way it enables individual countries or groups of countries to articulate their respective positions with the objective of achieving desired outcomes.

TRADE DIPLOMACY IN PRACTICE: FOUR PHASES OF GATT TRADE NEGOTIATIONS

This section draws attention to the key variables that influenced the outcomes of the eight GATT negotiation rounds. In order to obtain deeper insights into the increasing significance of trade diplomacy, it examines the changes in the relative position of the major players in negotiations as evident in the later trade rounds. It argues that the role of trade diplomacy became significant as US dominance moderated with the emergence of the EC as an important player in the negotiations.

Table 3 shows the main variables in the GATT multilateral trade negotiations and the role of trade diplomacy. The eight negotiations are divided into four phases. Each phase identifies the changes with regard to the numbers of key players, modes of liberalisation and sectors included in the negotiation agenda. These phases show that as the trade negotiation equation changed from one of a single dominant party and a limited agenda to that of a multi-party and complex agenda, the role of trade diplomacy in negotiations became more significant. Table 4 provides further information on those major aspects of GATT rounds which determine the outcomes of negotiations.

The negotiations during Phase I were held in a formal manner, but the US took the initiative in lowering industrial tariffs. It can be described as a unilateral move because the tariff reductions were not really the results of negotiations. Table 1 shows that unilateral liberalisation involves the problem of free riding which evokes domestic resistance, but the major player of the negotiations in Phase I, the US did not influence trading partners to adhere strictly to the principle of reciprocity and the role that trade diplomacy played could be described as 'insignificant'.

Table 3 about here

Table 4 about here

The role played by diplomacy during Phase I, however, cannot be examined in a political and security vacuum. As shown in Table 1, diplomacy could address two issues in unilateral liberalisation: deal with domestic lobbies against liberalisation and convince other countries to liberalise. During this period, it seems that the US did not confront significant domestic resistance to trade liberalisation. Among the major war-ravaged industrialised economies in the capitalist West, the US was the only country that had an enormous capacity to produce and trade. Ostry (1997: 65-67) argues that the uniqueness of the resources base of the US and its variegated economy meant that producer interests could be found in favour of both protection and free trade. Being the most powerful economy after the War, the opportunities before it to expand export markets were enormous. Until the mid-sixties the country enjoyed a huge trade surplus that had to be reduced in order to expand its markets. Hence, the US was 'favourably positioned to benefit from trade' (Winham 1986: 31) and the US was in a better position to facilitate multilateralism and act as the protector of the trading system rather than pressing its advantage to undermine its competitors' trading prospects.

The close relationship between political and security imperatives and security and ideological divisions that prevailed during the height of the Cold War suggests that security alliances became the key determinant in trade negotiations. The US had to open its market in order to stimulate the economies of the Cold War alliance, the EC, the United Kingdom and Japan in particular. The EC had to be supported in a further effort to strengthen the Atlantic alliance against the Soviet bloc, even though the US did not favour its discriminatory trading arrangements (Snape, Gropp and Luttrell 1998: 453). During Phase I, trade diplomacy was overshadowed by security diplomacy and the US pursued unilateral liberalisation not just because of its dominant position and the bi-polar system, but also because it did not face significant domestic resistance. Diplomatic efforts were not directed at the negotiations on tariff reductions, but were concerned with the agreement of new contracting parties, and expanding the institutional framework of the GATT.

Phase II shows significant changes in the GATT negotiation equation because of the transformation of the nature of negotiation from a unilateral one to a bilateral form because of the emergence of the EC as the second most powerful economic entity in the world. During the Dillon Round the two-party dominance in negotiations became significant, but it appears that members of the EC were not prepared to bargain as a single entity. As against multilateral liberalisation of the GATT, the EC preferred regional approach in resolving differences on domestic and trade policy issues within the Community. The main priority of trade diplomacy of the EC has been strengthening regional cooperation. In particular, the members were in the process of formulating a protectionist agricultural policy, which gave rise to the Common Agricultural Policy (CAP) in 1962 that proved to be the most contentious issue in almost all GATT trade rounds. Therefore, during the Dillon Round, the position of the key members of the negotiations can be described as 'key players, which were not equally interested in multilateral bargaining'. As against the dominant position of the US, the EC was still an emerging power, but it appears that given the significance of the priorities of the Cold War security alliance the former did not challenge latter's regional approach during the Dillon Round.

The Round established the basis for a mutual reduction of industrial tariffs between the two major trading partners, which could be considered as a major step that would provide a forward momentum for subsequent GATT negotiations. Although both players agreed to reduce manufacturing tariff, the overall outcomes of the Round were modest, because it failed to address the protective policies of the CAP (Rausser 1996: 336).

The EC came to negotiate as a single entity during the final phase of the Kennedy Round (1964-1967) and two-party dominance in negotiations became more prominent. While the EC's commitment to the regional approach in pursuing liberalisation remained strong, the US emphasised that other major trading partners, particularly the EC, should play a more active role in lowering trade barriers (see Preeg 1970: esp. Chaps. 1-3). The US diplomatic efforts were mainly concerned with the reform of EC's agricultural policies in accordance with the normal GATT rules. The main argument was that variable levies and export refunds for the agricultural products, which are the most important provisions of the CAP, were not compatible with the GATT rules and should be reformed. All members of the EC, however, opposed the move, insisting that their agricultural sector had to be protected (Harris, Swinbank and Wilkinson 1983: 275; Swinbank and Tanner 1996: Ch. 1).

With respect to trade diplomacy, the most important development of the negotiations has been that the growing prominence of 'two-party negotiations' in the GATT. The EC effectively challenged the US and negotiated as tough equals, and hence it was certain that the future of the Round would be determined by the nature of the compromise reached by the two during the negotiations. Disagreements between the members not only delayed the negotiations for two years, but also created obstacle for liberalisation in other sectors (Winham 1986:34,70; Preeg 1970: 262). As Preeg (1970: 5) points out, 'If they could agree, the negotiations would move forward; if they should fail to reach an accord, a serious and perhaps fatal crisis would undoubtedly follow'. With regard to agricultural trade reforms, the EC made it abundantly clear on several occasions that 'the CAP was one of the basic elements of its unity and fundamental objectives which could not be called into question and could not constitute a matter for negotiations' (Tracy 1989: 349). Therefore, almost all diplomatic efforts had to be directed at finding a compromise agreement between the two major players. It could be argued, therefore, that the role of trade diplomacy in multilateral trade liberalisation during Phase II became more significant than in the previous phase, but still its role was overshadowed by the Cold-War priorities as well as the regional interests of the EC.

The Kennedy Round agreement resulted in a reduction of an average 36-39 percent on non-agricultural tariffs in industrialised countries. Due to the disagreement over the agricultural trade issues the outcomes of agricultural tariffs reduction were less significant (Preeg 1970: 257-258). The nature of bilateral bargaining in Phase II, therefore, can best be explained as attempts at a 'mutual agreement' to liberalise some sectors, which did not contradict broader political-economic and security objectives during the period.

The Round recognised the growing significance of non-tariff barriers (NTBs) which had become more pronounced since the 1960s. In general, these barriers embraced diverse sectors of the economy, and hence made it difficult to evaluate their effects on trade. Although they do not strictly come under the purview of GATT, both the US and the EC were using a wide range of NTBs in order to protect some politically sensitive sectors such as agriculture. The regional arrangement of the EC proved to be a major obstacle to addressing the problem. Bureaucratic obstacles within the EC appeared to be a major constraint. The problem of achieving reciprocity and the difficulties in obtaining information on the extent and the effects of NTBs caused serious obstacles to addressing the problem in multilateral negotiations. Hence, exploring ways to restrict further use of NTBs and bring them under GATT supervision, and above all to commit two major players to addressing the issue, became a major task for future GATT trade rounds.

The growing significance of the 'bilateral nature' of the GATT negotiations does not necessarily mean that other trading partners were largely inactive in the process. As is discussed in the following sections, since the 1950s middle powers such as Canada and Australia have emphasised the negative effects of the existing agricultural policies which significantly restricted their export opportunities, but the Cold War alliance and the US power dominance effectively weakened their influence in trade negotiations. Although the number of developing country participants grew over time, they were virtually dependent on the GATT provisions for special treatment, especially for agricultural trade. The exceptions accorded to them were so extensive that they became 'free riders' of the GATT regime rather than parties effectively involved in trade negotiations.

MIDDLE POWER TRADE DIPLOMACY AND AGRICULTURAL TRADE LIBERALISATION

Phase III of the GATT negotiations, the Tokyo Round (1973-79), shown in Table 3, was an important landmark in multilateral negotiations. It can be considered as the first global trade round because ninety-nine countries participated in the round. Unlike other rounds, which negotiated only tariff reductions, it attempted to address the issues of NTBs in a more formal manner. Although the Round failed to make any headway towards the lowering of agricultural trade barriers, the attempts to include agriculture into the negotiation agenda can be considered as the most far reaching effort made by GATT in this respect. Moreover, during the Tokyo Round the role of middle powers in negotiations became evident, although they were not successful in influencing the final outcomes of the Round.

The environment in which the Tokyo Round was conceived was marked by important developments that underlined the significance of trade diplomacy. While the dominance of the US was further challenged by the EC, other players also attempted to exert their influence in the GATT in trade negotiations. Although the

end of the Cold War became a reality during the 1980s, the weakening of the Soviet alliance was evident in the 1970s. In effect, the significance of the political and security bonds that had shaped domestic and trade priorities in the US gradually receded and declined to an even greater extent with the end of the Cold War. This meant that competition for international markets between the US, the EC and Japan became more evident and intensified. The EC became even stronger with the expansion of its membership and extended its association and subsequent economic strength in the 1970s. As the EC has been more interested in strengthening 'regional' ties than in the future of multilateral free trade these developments have important ramifications for future trade negotiations.

On the other hand, both the US and the EC were also concerned at the rapid growth of Japan and the newly industrialised countries (NICs) mainly because of their economic problems during the early 1970s. Criticising the trade policies at the time, lobby groups, politicians and the media maintained that the increasing trade and unemployment problems could be largely attributed to increasing imports from Japan and the NICs. With regard to the less-dominant position of the US, it can be argued that even though the US has no equal, it has been more constrained in the pursuit of its policies since the mid-1970s than at any time since 1945. Policy makers in the US, therefore, seem to have been forced to focus more on domestic issues and search for alternative means to address trade issues.

The attempts made by the US during the Tokyo Round to bring agriculture into the negotiations can be explained in two perspectives. Firstly, the US and other contracting parties, middle powers in particular, became increasingly aware that the EC's regional approach to liberalisation should be changed in favour of multilateral negotiations. Secondly, the pressure made by the US for the change of existing agricultural trade regime was further strengthened by the increasing support from middle powers such as Australia and Canada. However, only the EC cannot be held responsible for the growing agricultural protectionism under the GATT. In fact, agricultural exceptionalism that thrived under the GATT is not an isolated phenomenon, but a result of the attempts made by the key players, middle power and developing countries in order to maintain protectionist policies in individual countries under various guises. The US introduced PL 480 and obtained a waiver for agriculture from GATT in the 1950s (Warley 1976: 350). Moreover the privileges accorded to some countries under the Commonwealth Preference seemed to have influenced the countries to treat the agricultural sector differently in GATT negotiations. Japan continued to maintain a largely protectionist agricultural policy (Gorden 1990: 949-950). With major developing countries, middle powers attempted to obtain special treatment for agriculture (Cooper 1997: 33-35). Therefore, the literature has widely acknowledged this contradiction of the existing trading system and claimed that the GATT had very little impact on the conduct of the agricultural trade or the levels of protection afforded to the farm sector in the major advanced countries (see Moyer and Josling 1990; Hine, Ingersent and Rayner 1989; Jackson 1989: 44, 100; Paarlberg 1988; Hathaway 1987: Ch 5; Curzon and Curzon 1976: Ch 3; Warley 1976: 347).

The attempts to bring agriculture into the Tokyo Round negotiations, therefore, have to be examined in the context of the changing perceptions of the US and middle powers in relation to agricultural trade liberalisation. The growing disappointment among the traditional exporters, particularly the US, Australia and Canada of the increasing challenge from the EC in agricultural trade is relevant in this regard. Traditionally, the members of the EC had been their major export market for agricultural products, but in the mid-1970s the EC transformed from a net importer to a net exporter, mainly as a result of the CAP and export subsidy policies. In the 1960 and 1970s the US experienced a substantial overproduction, but growing competition from the EC effectively restricted its export opportunities. During the 1986-88 period, Canada and the US lost 6.3 and 4.6 per cent respectively of cereal exports to the EC (OECD 1991: Annex Table 4 and 7). The US was particularly cautioned because now it has to consider the trade and domestic economic consequences arising from the rapid expansion in Japan, followed by several Pacific Asian countries. On the other hand, other major agricultural exporters such as Australia, Canada and some developing countries often felt that not only the EC but also the US maintained discriminatory agricultural policies restricting their export markets.

The previous experience of GATT negotiations suggests that middle powers have serious reservations about the efficacy of multilateral negotiations which could not reform the interventionist agricultural policies of the major players of the GATT. For instance, other agricultural exporting countries, especially Australia and Canada strongly argued against the agricultural policies of both the US and the EC since the 1960s. They

intensified lobbying and made a strong case for the lowering of agricultural trade barriers during the Tokyo Round. Moreover, along with the US, both Australia and Canada took major diplomatic initiatives to temper the restrictive practices of the CAP in terms of market access. They were instrumental in establishing a panel of experts under GATT to report on agricultural trade. Growing protectionism and its effects on primary products were of particular interest (Cooper 1997: 34).

In the Tokyo Round, the two key players bargained as tough equals and the proposals made by the US to liberalise agricultural trade have been the key issue that created impasse for further negotiations (Winham 1986: 34). Differences over the issue were so intense that middle powers had to play a more active role creating an environment which could persuade two major players not to abandon the Round, but to continue with negotiations and reach a compromise agreement to strengthen trade liberalisation. However, the negotiations failed to address the problem of agricultural protectionism and this, not only prevented substantial reform, but also overshadowed efforts towards the reduction of trade barriers in other areas (Cohen 1993: 22; Winham 1986: 65; Harris, Swinbank and Wilkinson 1983: 275-279).

The experience of the negotiations in Phase III suggests that even though trade diplomacy diligently attempted to reduce trade barriers in more politically sensitive sectors such as agriculture, other contracting parties had little choice but to concur with the decisions of major partners. Some observers maintain that the Round made protectionism even stronger. Tracy (1989: 350) for instance, points out that negotiations:

did not ...represent a major inroad on agricultural protectionism. The Community in fact considered that a major result of the MTNs [multilateral trade negotiations] was implicit recognition by its trading partners, in particular the US, of the principles and mechanisms of the CAP.

Australian representatives expressed disappointment at the results of the Round, especially at the lack of progress in agricultural trade reforms. It could be argued, therefore, that the trade diplomacy of the middle powers was not successful in influencing the final outcomes of the negotiations during Phase III.

The role of middle power diplomacy in trade negotiations cannot be examined in isolation. Their response to the evolution of agricultural exceptionalism could best be described as a cautious but facilitatory one, that would secure broad multilateral principles within the GATT regime under the US leadership. Because of its Cold War obligations and the dominant power of the US and the strengthening bargaining power of the EC, their ability to influence the reforms towards a more open agricultural trade regime have been limited. Their endeavours could be best described as an attempt to facilitate the trading system by discouraging protectionist tendencies. This is what Cooper (1997: 34) has termed 'the diplomacy of constraint'.

The final agreement of the Round, however, signified two important milestones. Firstly, it demonstrated that joint US/EC leadership in GATT negotiation had strengthened further. Secondly, it represented the most comprehensive and far-reaching multilateral agreement in GATT history thus far. As in the previous rounds, it agreed to further tariff reductions and a series of revisions of GATT articles, primarily those dealing with the interests of developing countries. However, the agreement on six codes dealing with NTBs was its most important. These codes were intended to change 'GATT rules from statements of broad principles to more detailed regulations relating to domestic and international procedures' (Winham 1986: 17).

TRADE DIPLOMACY IN THE 1990s: THE ROLE OF CAIRNS GROUP IN GATT NEGOTIATIONS

Phase IV in Table 3 refers to the Uruguay Round which was the most comprehensive, lengthiest, and above all, most difficult MTN in the history of the GATT. Table also shows the growing importance of a 'third force' in trade negotiations. The third force is referred to the group of agricultural exporting countries which initiated the Cairns Group in 1986. The formation the Group could be explained as the culmination of the continuous efforts to reduce trade barriers by other agricultural exporting countries. The members of the Group had become increasingly aware that unless they created effective pressure in negotiations their trading interests would be sidelined again in the Uruguay Round. Its effective presence in the Round as the third force shows that while the variables of the negotiation equation had become even more complex, trade

diplomacy played a prominent role in strengthening GATT's role in addressing the difficult trade issues of the 1990s. The significance of this third force in trade negotiations is even greater when the frustration over the lack of the effectiveness of the GATT mechanism and the uncertainty over the future of the multilateral trading system experienced during previous rounds is taken into account.

The difficulties that the GATT system has been encountering since the 1980s was so severe that the credibility of the regime was under close scrutiny. Many lobby groups in the US stressed that GATT's effectiveness has waned in recent years, primarily because its machinery and rule have not been adapted to current needs of the international trading community (see Thurow 1996; Destler 1995; Prestowitz, Tonelson and Jerome 1991). In addition to the fact that agricultural trade has largely been outside the purview of the GATT system, the policies which have been pursued by the US and the EC have demonstrated that multilateral rules on agricultural trade had become increasingly ineffective. Moreover, the increasing interest in regionalism in the 1980s, widespread use of NTBs and the growing prominence of new players created difficulties in achieving consensus on trade issues in GATT negotiations.

Increasing frustration over the ineffectiveness of the GATT system and growing interest in new avenues for addressing trade issues in the 1980s is clearly evident in the US trade policy agenda. The comprehensive trade strategy outlined by the Reagan Administration in September 1985 demonstrated the US intention to seek fresh approaches that would overcome the difficulties of the GATT system. Although there was no agreement on an alternative trade regime that would address the trade problems more effectively, the evolving trade policy in the US could be best described as a strategy that would seek other means, unilateral, bilateral and regional in order to open foreign markets.

The growing prominence of a third force in GATT negotiations can be examined in relation to the aggravating problems of agricultural trade since the 1980s. The formation of the Cairns Group in 1986 which played a prominent role in the Uruguay Round as a third force in negotiations has been a collective effort made by several middle-level agricultural exporters to reforms existing interventionist policies by major players of the GATT. Middle powers, Australia in particular, had been at the forefront in demanding reforms of agricultural tariffs in the previous GATT rounds, without success (McEwen 1967: 2056-59; Anthony 1978: 3301-03). They initiated the phasing out of agricultural protection in the mid-1970s. However, the growing conflict between the US and the EC, which some observers called as a 'war', depressed international prices for agricultural commodities further (see Wolfe 1998: Chap.3; Tanner 1996:1; Rauser 1996: 336; Anderson and Tyres 1990; World Bank 1986). Export price manipulation by the major exporters caused higher levels of international price variability (see Johnson 1987; World Bank 1986). Given the depressed world prices, other exporters such as Australia, Canada and some developing countries could not realise the full benefit from trade reforms at the domestic level. They were not in a position to engage in a subsidy competition and faced the imminent danger of loosing export markets. Hence, they have confront a common challenge that is, how to address the issue on a multilateral level at a time when the major powers were at 'war' with each other to win export markets.

Because of the growing pressure for agricultural liberalisation, for the first time in GATT history, agriculture was included into the agenda of the Uruguay Round. However, from the outset the process of agenda setting, let alone dealing with new and other issues raised in the previous rounds, proved to be very difficult. In particular, the efforts to bring agriculture onto the agenda and keep it in the negotiation process proved to be a very difficult endeavour. Conflicting views on reform were the most significant obstacle in the discussions (see Oxley 1998; Greenaway 1993; Rayner, Ingersent, and Hine 1993).

The members of the Cairns Group were concerned about the uncertainty surrounding the commitments to reforms by major parties which could jeopardise the negotiations. During the seven-year long negotiations, the Uruguay Round demonstrated the positive role of coalition building in GATT negotiations. As two major players were not prepared to change their tough stance on agricultural trade reforms, the Cairns Group lobbied strongly for agricultural trade reforms. However, as a coalition with a diverse nature of membership it had to make use of its diplomatic capabilities in order to minimise internal differences within the Group and continuing as a strong common force to achieve the desired goals. The Cairns Group focussed on a single issue, agriculture. This provided a relatively easy but persuasive approach to developing common

understanding and strategies because most members of the Group agreed that existing agricultural trade practices in major economies were unfavourable to them (Oxley 1990: 112).

The fact that the coalition wields significant bargaining power further strengthened the effectiveness of trade diplomacy of the Group. The Group represents a significant collective market power. It accounts for 25 percent of global trade in agriculture, compared to 30 per cent, and 15 per cent for the EC and the US respectively. Within particular commodity groups, most of the members represent a substantial share of world exports. As a group they represent a growing import market for all other products as well. The Cairns Group could also be considered as an effort to form a coalition between developing and developed countries. It comprises some OECD countries, large and small developing countries, and several newly industrialised countries.

As a coalition focusing on the broader objectives of agricultural trade liberalisation, the Group had the advantage of having a comprehensive network. Most of the members of the Group are participants of other groups or organisations which represent diverse interests. Australia, New Zealand and Canada are OECD members. Canada on the other hand, is a member of G7, Quid and CUSTA. G7 comprises most advanced countries, while Quid represents three major economies, including the US and Japan. CUSTA was a trade agreement between Canada and the US which was later transformed into NAFTA. Latin American countries are members of one or several regional groups. Developing a network of a diverse group of countries has several advantages in promoting the Group's common cause of emphasising the urgency of agricultural trade reforms under GATT. Through this network it was possible to more effectively disseminate information on the adverse effects of the existing agricultural policies. Greater awareness of the benefits of the proposed reforms and the drawbacks of the existing regime would increase the pressure from other GATT parties for reforms.

Although it was not intended that the Group work in unison on every issue of agricultural policy reforms, in the end it proved to be the strength of this third force that would influence the GATT outcomes (Higgott and Cooper 1990: 601). The practice of holding annual ministerial meetings between the member countries revealed a strengthening political commitment at a high level. Hence, the Group proved that it could effectively influence the negotiation process and the outcomes of the Uruguay Round.

The Cairns Group also recognised the significance of avoiding the obstacles that would undermine common objectives of the coalition. For instance, in most commodity areas, member countries are competitors in the world market. Their trade relations with non-member countries, as in the case of the trade relations that Canada has with the US, create difficulties in pursuing the common objectives of the Group. The common purpose, therefore, was to force the major players in the GATT negotiations to eliminate discriminatory trade policies and promote multilateral trade. Their common position in the Uruguay Round included targets and modalities for the negotiation which all formally agreed to sponsor. In effect, the Group 'continued to work and represent its interests jointly' and the US recognised the significance of the Cairns Group as an important factor in negotiations (Oxley 1998)*. Hence, the Group was in a strong position to challenge both the US and the EC to commit to phase out discriminatory trade policies and enhance multilateral trade. The resulting negotiation structure, therefore, could be characterised as a three-way process. It was quite a contrast to the traditional mode of two-way negotiations.

The main characteristic of the Cairns Group's approach towards the Uruguay Round negotiations was its flexibility in pursuing its objectives. From the beginning it recognised its advantages and shortcomings and proceeded accordingly (Oxley 1998). Prior to the 1987 special GATT meeting in Geneva, thirteen delegates of the member countries attempted to present a formal, common set of proposals related to agricultural reforms. It was an informal initiative. The delegates used the Group to coordinate rather than agree on joint positions (Oxley 1998, 1990:112). The common position of the Group mainly urged the meeting 'to secure early changes in current domestic farm support policies of those countries that adversely affect international trade in agriculture' (Cairns Group 1986). This step-by-step approach in formulating goals, common

* Allen Oxley was the Head of the delegation representing the Cairns Group in the Uruguay Round negotiations.

positions and strengthening collective power in negotiations facilitated the bargaining position of the Group in the Uruguay Round (Cooper and Higgott 1993: 128).

The positive contribution of the Cairns Group to the successful completion of the Uruguay Round has been widely acknowledged (see Fisher 1998; Oxley 1998; Cooper and Higgott 1993). For instance, Oxley (1998) points out that the Group is the most successful coalition in the history of GATT negotiations, while Cooper and Higgott (1993: 121) consider the Group 'as a constructive bridge builder and consensus seeker' in the Uruguay Round negotiations.

The achievements of the Uruguay Round suggests that trade diplomacy became more significant in Phase IV of the GATT trade negotiations. The Round could be considered as a major landmark of multilateral trade negotiations. The final agreement of the Uruguay Round did not fulfil all the demands of the Cairns Group, but it was the first attempt to regulate agricultural trade through GATT. The successful completion of the Round eliminated the uncertainty about the future of GATT multilateralism and has reinforced the faith in the efficacy of multilateral approaches in coping with changing demands a multipolar world. It has been able to discourage the US's regional and unilateral attempts to achieve its trade objectives which created the apprehension that the world would become divided into competitive regional blocs that would unfavourably affect individual countries and global trade and production.

CONCLUSION

The functioning of GATT and characteristics of multilateral trade negotiations that evolved under the regime has to be evaluated in the context of the performance of the liberal international economic order in which the post-War trade regime was established. In trade negotiations the role played by the US is significant because it influenced all aspects of trade negotiations, including agenda, procedure and outcomes. Although the contrasting views of the US and European counterparts on liberal trade in general, and agricultural trade in particular have been evident in the GATT regime, it should be placed in proper perspective. Given the need for immediate economic reconstruction after the War, multilateral trade liberalisation seemed to be a remote objective in Europe. In agricultural trade, the CAP and its expansion further strengthened managed trade under the EC. The significance of the contrasting views of the two trading powers became apparent as the EC gained its economic strength. Parallel to the EC's ascendance as a major economic entity and the CAP's influence on agricultural trade and the emergence of other economic competitors, the relative position of the US in international trade was weakened to some extent. The natural response from the US was, therefore, to attempt to bring rules, those of agricultural trade in particular, within the purview of GATT.

The effectiveness of trade diplomacy was increasingly undermined by the US power dominance and then by the growing dominance of the two-party negotiation process. Although the number of contracting parties of the GATT increased over time, the conclusion of trade negotiations was always decided by bilateral arrangements between the US and the EC. They were 'two way inner-core' negotiations (Oxley 1998), not really multilateral. In practice, therefore, 'what was multilateral negotiations in name became large, complicated series of bilateral (or plurilateral) negotiations in fact. The main action of the negotiations often occurred away from multilateral chambers' (Winham 1986: 22). Consequently, negotiated tariff reductions between the US and the EC were extended to other participants on the basis of MFN treatment, which resulted in a 'pyramidal structure' of trade negotiations.

The evolving nature of trade diplomacy, suggests that it became more prominent in Phase IV of the GATT multilateral trade negotiations. The role of trade diplomacy in the previous GATT rounds was marginal, although it became more important in the later rounds. For the first time in GATT history, middle power trade diplomacy became a major force in influencing the outcomes of the Uruguay Round. It also played an important role in coalition building among the GATT contracting parties. The Cairns Group became the 'third force' as well as an effective force in the Uruguay Round negotiations. The most important point to be made with regard to the overall multilateral system is that even though the post-War trading order has witnessed the shift from hegemony to multi-polarity, the alternative system of advanced multilateral management of the global economy is still evolving. As demonstrated by the experience of the Uruguay Round negotiations, trade diplomacy can play a major role in promoting such a mechanism. Middle power

trade diplomacy which demonstrated its potential in negotiations during the Uruguay Round is of paramount importance in this regard.

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Table 1: Modes of Trade Liberalisation and the Role of Trade Diplomacy

Liberalisation	Unilateral	Bilateral	Regional	Multilateral
Participants	One country	Two countries	Several regional members	A large number of countries
Main characteristics	<ul style="list-style-type: none"> • Limited liberalisation. • Apply only to selected sectors or industries. • No reciprocity requirement 	<ul style="list-style-type: none"> • Mutual arrangement to liberalise some sectors or industries 	<ul style="list-style-type: none"> • Predetermined liberalisation agenda. • Strengthening bureaucracy. • Discriminate against outsiders. 	<ul style="list-style-type: none"> • Non-discriminatory liberalisation. • A broad liberalisation agenda.
Main constraints	<ul style="list-style-type: none"> • Free riding problem encourages domestic resistance 	<ul style="list-style-type: none"> • No free riding problem • Domestic constraints, but both partners liberalise only the favourable sectors 	<ul style="list-style-type: none"> • Resistance from the sectors affected by the arrangement. • Problems of intra-regional and international trade. • Bureaucracy may undermine attempts at multilateral liberalisation. 	<ul style="list-style-type: none"> • Complexity of negotiation procedures. • Dominant power and preferences of some members may undermine liberalisation efforts and overshadow the interests of small partners.
Role of diplomacy	<ul style="list-style-type: none"> • Deal with domestic lobbies against liberalisation. • Convince other countries to liberalise 	<ul style="list-style-type: none"> • Limited to the countries and sectors concerned. 	<ul style="list-style-type: none"> • Enhancing liberalisation process in the region while facilitating trade negotiations with other regions and countries. 	<ul style="list-style-type: none"> • Explore new avenues of negotiations. • Minimise the differences between major players. • Avoid deadlocks that delay negotiations. • Build coalition among small players.

Table 2: Characteristics of Multilateral Trade Negotiations

Multilateral negotiations	Characteristics	Problems of Negotiations	
		<i>Under condition of two party dominance^a</i>	<i>Under conditions of declining hegemony^b</i>
Multi issue	Each player sets his agenda. Ranks issues, establishes preferences and initial position of negotiations.	The two determine negotiation agenda.	Domination of major players may create problems in agenda setting and agreeing with politically sensitive issues.
Multi party	Sets common agenda and time frame. Fleshes out trade-off between players.	Many parties involved in negotiations, but relative strength and the preferences of the two determine the outcomes and may undermine others' trade interests.	Designing negotiation procedure becomes more difficult. Negotiation coalitions may undermine the interests of individual players.
Multi stage	Attempts to increase the scope of co-op behaviour and increase the range of issues on the agenda. Balancing of concessions in negotiations that leads to final agreement. Implementation stage.	Outcomes of bilateral bargaining are multilateralised. This may undermine the interests of other negotiating parties.	Bargaining process become very complicated and may constrain negotiation agenda. Last minute deals to meet the deadline tend to encourage bilateral deals between major players and defer some trade issues to future negotiations.

^a This refers to the negotiating environment in which the often conflicting interests of the US and the EC take precedence over those of other contracting parties.

^b Refers to the negotiating environment which is not dominated by the US and the EC and where other parties are able to influence the negotiations.

Table 3: Multilateral Trade Negotiations and the Role of Trade Diplomacy

Phase Variables in MTNs	I ^a	II ^b	III ^c	IV ^d
Major players	One	One+an emerging player	Two	Two+coalition of some players
Modes of liberalisation	Tariff	Tariff	Tariff+attempts on NTBs	Tariff+NTBs+ GATT rules
Sectors included in negotiations	Manufacturing	Manufacturing	Manufacturing+ attempts on agriculture	Manufacturing +agriculture+ GATT rules
Role of trade diplomacy	Insignificant	Marginal, facilitated status quo	Growing importance in negotiations, but less effective in final outcomes	Significantly contributed to the negotiation process and final outcomes

a - first four GATT Rounds (1947-1956)

c - Tokyo Round (1974-79)

b - Dillon (1960-62) and Kennedy (1964-67) Rounds

d - Uruguay Round (1986-1993)

Table 4: GATT Multilateral Trade Negotiation Rounds 1947-1995

Phase	I	II	III	IV
Trade round/ period	Geneva 1947; Anney 1949; Torquay 1950- 51; Geneva 1956	Dillon 1960-62; Kennedy 1964-67	Tokyo 1974-79.	Uruguay 1987-94.
Number of participants	23 to 37	37 to 74	99	108*
Major players	US, UK, and France. Japan only in the fourth round	US, EC ^a , UK, Japan and Canada	US, EC ^b , Japan and Canada	US, EC, Japan, middle powers and major LDCs
Major developments in negotiations	US domination in final outcome	US domination was increasingly challenged by the EC. Institutionalisation of the CAP. Rapid growth of the EC's influence in negotiations.	Growing differences between the two players and tough bargaining constrained the final outcomes of negotiations.	Growing prominence of a 'third force' in negotiations. Agreement in agricultural reforms.

*In 1999 the WTO had 134 members.

a- The European Community was formed in 1957 with six members.

b- UK with other EFTA members joined the EC in 1973.

Source: GATT reports, various.