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**Reciprocity in Trade Liberalization**

**Akiko Yanai**

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**APEC STUDY CENTER**  
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# CONTENTS

<b>I. Introduction .....</b>	<b>1</b>
<b>II. Conceptual Definition of Reciprocity.....</b>	<b>1</b>
<b>III. Reciprocity as a Means of Trade Liberalization .....</b>	<b>3</b>
<b>IV. Changes of Reciprocity in Multilateral Trade Liberalization.....</b>	<b>6</b>
IV-1. Formation of the postwar world trading system .....	6
IV-2. Restriction in free riding.....	8
IV-3. Treatment of Developing Countries .....	9
<i>IV -3-(1) In the process of drafting the ITO Charter .....</i>	<i>9</i>
<i>IV -3-(2) Review Session (1954-55).....</i>	<i>10</i>
<i>IV -3-(3) In the Late 1950s .....</i>	<i>11</i>
<i>IV -3-(4) In the early 1960s .....</i>	<i>12</i>
<i>IV -3-(5) At the Kennedy Round Negotiation (1964-65).....</i>	<i>13</i>
<b>V. Concluding Remarks .....</b>	<b>14</b>
<b>References .....</b>	<b>16</b>

## **I. Introduction**

For the past two hundred years, trade liberalization has been gradually promoted upon the principle of reciprocity. Before World War II, reciprocal trade agreements were commonly used for tariff reduction between two states. During the postwar period, how to apply reciprocal relationships among the member states had been the centerpiece of discussion on the table of the General Agreement on Tariffs and Trade (GATT). Further, the bilateral and regional Free Trade Agreement/Area (FTA) currently under consultation is most likely to incorporate reciprocity. It is the principle of reciprocity which determines the depth and the breadth of trade liberalization.

**Having stumbled with the new round of the World Trade Organization (WTO) at the very beginning, policymakers are increasingly choosing FTAs as a resolution for the future, paying attention to its complementary role to multilateral trade liberalization.**

However, reciprocity could work conversely. After the Great Depression, trade protection by one country brought retaliatory protection, which eventually made trade blocs and divided the world market.

**Is there any chance of the FTAs going to protectionism? In order to foresee the direction of the FTAs, it will be necessary to examine the nature as well as the function of reciprocity.**

The definition of reciprocity is studied in Chapter II. The process and the reason for reciprocity becoming the principle of trade liberalization are discussed in Chapter III. And in Chapter IV, how the meaning and application of reciprocity changed under the GATT process is examined.

## **II. Conceptual Definition of Reciprocity**

Reciprocity is defined as a fundamental rule by which plural parties maintain the balance of treatment by means of granting the same or equivalent rights and benefits and/or undertaking obligations to each other (Yamamoto, 1988: 245). A reciprocal relationship can be explained as a balanced condition in which one side gives the other certain treatments while the other returns the equivalent treatments (Kuwahara, 1975: 417). Keohane extracted two essential dimensions from reciprocity: contingency and

equivalence (1986: 5).

According to Blau (quoted in Keohane, 1986: 5), reciprocity implies “actions that are contingent on rewarding reactions from others and that cease when these expected reactions are not forthcoming”. Reciprocal relations require antecedent actions of one side that induce the other to act in consequent responses.<sup>1</sup> The contingent actions, therefore, are inevitably taken in such a way that “good is returned for good, and bad for bad” (Keohane, 1986: 8). This brings a “tit for tat” oriented policy, which could lead to a retaliatory relationship if this negative aspect of reciprocity is excessively focused.

The equivalence of benefits is emphatically associated with the notion of reciprocity. However, measuring equivalence of benefits is difficult in the context of international relationships. Moreover, equivalence might elicit substantial inequality and unfairness among states because reciprocity entails equal treatment among unequal partners on the basis of the sovereign equality principle.

Reciprocity is often regarded as synonymous with “mutual relationship”. However they are different. First, in the reciprocal relationship, a voluntary action belongs only to the giving side because a contingent action is obligatory in return. In contrast, a “mutual” relationship occurs when both participants give to each other of their own free will. Second, reciprocity includes balance and symmetry in the meaning of a bilateral relationship where one gives and the other returns. On the other hand, a mutual relationship does not necessarily require the balance of participants (Kuwahara, 1975: 416).

Reciprocity is roughly categorized into two types. According to Smith, there are open reciprocity and restrictive reciprocity (Ishikawa, 1985: 10-11); Cline (1983) called them passive reciprocity and aggressive reciprocity; and Keohane (1986) termed them diffuse reciprocity and specific reciprocity. The notion of the former implies a broad extent and a long-term relationship. Open, passive and diffuse reciprocity does not demand any direct return to an antecedent action by the giving side. It merely imposes a certain repayment of obligation in the future on the receiving side.<sup>2</sup> On the other hand, restrictive, aggressive and specific reciprocity places great emphasis on simultaneous

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<sup>1</sup> These two different actions are clearly distinguished in the GATT vocabulary: an original tariff reduction is a “concession,” while a reciprocal reduction is “compensation” (Dam, 1970: 65).

<sup>2</sup> Keohane (1986: 20) notes that “a pattern of diffuse reciprocity can be maintained only by a widespread sense of obligations.”

exchange of strictly equivalent benefits and/or obligations. It is apt to apply to the bilateral or the limited extent relationship.

These two notions on reciprocity divide the most-favored-nation (MFN) treatment into two types. Specific reciprocity elicits a conditional MFN treatment. In contrast, diffuse reciprocity supports theoretically the GATT doctrine of multilateral and non-discriminatory liberalization, which should be realized through exchange of unconditional MFN treatments among the member states. The distinction between an unconditional MFN treatment and a conditional MFN can be explained as follows: Under an unconditional MFN clause, a country is prohibited from discriminating against any country with which it has an agreement. Thus, if A and B agree upon an exchange of concessions based on an unconditional MFN treatment, and A makes new concessions to C, it should automatically apply to B as well. If A and B agree upon a conditional MFN clause, however, B can receive those concessions only when B provides A compensation which is equivalent to that offered to A by C.

The interpretation of reciprocity changes with the economic and social situation of the times, and has diversified with varying approaches of trade liberalization.

### **III. Reciprocity as a Means of Trade Liberalization**

In international relations, reciprocity originally functioned in the privileges and immunities of mission and consular staffs. After the mid-eighteenth century, reciprocity became the fundamental principle in international trade.

It was the United States who brought reciprocity into trade policy. After gaining independence, the United States signed the Treaty of Amity and Commerce with France in 1778, which contained provisions for reciprocal trade concessions in order to secure free flow of goods and ships (Ishikawa, 1985: 11). In the Preamble of the treaty, emphasis was placed on the significance of reciprocity with the phrase that fair and permanent commercial relationship between two countries cannot be attained without the most perfect equality and reciprocity based on this agreement. The treaty included a conditional MFN clause between the two countries as well. This obviously shows the treaty was based on specific reciprocity.

The United States took reciprocity into its commercial policy in order to open up the foreign markets for exporting its products. In the latter half of the eighteenth century, when the United States won independence, imperialism and mercantilism of the European Great Powers had ordered international political and economic relations. Great Britain and other European powers traded preferentially with their own colonies. On the other hand, they discriminated against other countries by imposing high tariffs. Because the United States was a latecomer and had no colonies, it could only insist upon reciprocal treatment with a conditional MFN clause. Through this MFN clause, the United States was able to get benefits under which the partner country of the trade agreement reduced tariffs on U.S. goods as a reward for U.S. tariff reduction on goods of that country.

In 1815, the United States legislated the Reciprocity Act, which included a clause eliminating U.S. discriminatory tariffs in accordance with the principle of reciprocity. The Act was followed by an agreement with Great Britain in the same year to eliminate discriminatory tariffs reciprocally. The United States had concluded bilateral commercial agreements based on reciprocity with most of the Latin American countries by around 1830 as well.

The principle of reciprocity in the trade policy of the United States was gradually accepted among the European states. Great Britain, for instance, legislated the Reciprocity of Duties Act in 1823, under which it entered into bilateral treaties to provide conditional MFN treatment for both countries' exports. In addition, Britain unilaterally reduced tariffs on many kinds of goods and abolished the Corn Act in 1846 and the Navigation Acts in 1849. This indicated a revolutionary change in Britain's policy from protectionism to liberalism based on reciprocity. Then the French government followed the British trade policy of free trade as well (Winham, 1992: 18). The change in their policies reflected the shift of influential theory of that time from mercantilism and protectionism to laissez-faire and free trade. Eventually Great Britain and France concluded the Cobden-Chevalier Treaty of 1860, which gave each other reciprocal tariff reduction on some goods.<sup>3</sup>

In this way, bilateral trade agreements functioned as the main measures for tariff

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<sup>3</sup> According to Winham (1992: 18), this treaty demonstrated that trade agreements could be an effective means of trade liberalization.

reduction. Each of them generally contained a conditional MFN clause, which had been introduced by the United States.

After the 1870s, however, protectionism overwhelmed Europe because of a depression. Moreover, economic nationalism increased in power after World War I (1914-1917), and the Great Depression started in 1929. During this period, major countries such as Great Britain and France built economic blocs with their autonomous territories and colonies through the imposition of high tariffs and other trade barriers to protect their own industries. With the establishment of preferential treatment systems, these countries were able to discriminate against non-allied states. This economic bloc trading system and the associated currency devaluation began a chain of events that resulted in a substantial reduction in world trade, and they made the Great Depression of the 1930s more prolonged and more serious.

The United States protected its domestic industries with a tariff policy as well. It realized protection by means of so-called “reciprocity provisions” in the Tariff Acts and conditional MFN clauses in bilateral trade agreements, and both incorporated specific reciprocity.

Most of the Tariff Acts from 1890 to 1930 contained reciprocity provisions,<sup>4</sup> which gave the president the authority to impose duties on certain products when foreign governments were “reciprocally unjust or unreasonable”, in other words discriminated against American products. These provisions emphasized a retaliatory aspect of reciprocity that “bad is returned for bad”. The Smoot-Hawley Tariff of 1930 was regarded as a typical Act based on “not reciprocity but retaliation” (Gilligan, 1997: 68).

However, legislation of the Reciprocity Trade Agreements Act (RTAA) in 1934 indicated the return of U.S. trade policy to liberalism. It is significant to note that the RTAA did not depend on specific reciprocity even though it aimed at reducing tariffs and other trade barriers by bilateral negotiations. The RTAA relied on diffuse reciprocity. The United States replaced specific reciprocity with diffuse reciprocity partly because the conditional MFN policy brought about never-ending negotiations of bargains.

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<sup>4</sup> For instance the McKinley Act of 1890 and the Dingley Act of 1897. See Gilligan, 1997: 62-70.

In accordance with the RTAA, the United States concluded reciprocal trade agreements with twenty-seven countries by 1942. “Each agreement contained a reciprocal exchange of tariff reductions and a framework of other GATT-like obligations to protect the commercial value of the tariff reductions” (Hudec, 1986: 7).

However Dam (1970: 61) pointed out that “bilateral negotiations under the RTAA were considered slow and limited in scope, and it was thought that these defects could be remedied by negotiating within a multilateral framework.” After the war, the United States became reliant on multilateralism.

## **IV. Changes of Reciprocity in Multilateral Trade Liberalization**

### **IV-1. Formation of the postwar world trading system**

At the Bretton Woods Conference in July 1944, the United States and its allies discussed plans for postwar economic order and agreed to establish the International Monetary Fund (IMF) as well as the International Bank for Reconstruction and Development (the World Bank). At the Conference, a monetary and banking system was the central issue, and there was no specific discussion of the establishment of institutions to promote the liberalization of world trade.

In December 1945, the United States proposed to form the International Trade Organization (ITO), which was unresolved at the Bretton Woods Conference. This proposal called for the first preparatory negotiation for creating the ITO in October 1946 in London and the successive conferences from 1947 till 1948 in New York and Geneva.<sup>5</sup> In March 1948, the ITO Charter was adopted at the United Nations Conference on Trade and Employment in Havana; thus, it is known as the Havana Charter.

Though the United States had taken the initiative in adopting the ITO Charter, the U.S. government faced rejection to the ratification of the Charter by the Congress, which was concerned with the impact of free trade to the domestic industries. Finally, in 1950, the government stopped trying to persuade the Congress to ratify the Charter.

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<sup>5</sup> The ITO preparatory Conference consisted of nineteen members: Australia, Belgium, Luxembourg, Brazil, Canada, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Syria, Netherlands, New Zealand, Norway, South Africa, United Kingdom, and United States.

Only two nations ratified the Charter because most of other nations thought that the ITO could not function efficiently without the United States.<sup>6</sup> Consequently, the plan for establishment of the ITO lost momentum.

Alongside the ITO Preparatory Committee, the first multilateral tariff negotiation, called “the round”, was held in Geneva, where reciprocal concessions among the participants were agreed.<sup>7</sup> In order to assure and to enforce the results of the round, part of the provisions were chosen as the GATT from the draft of the ITO Charter in October 1947.

At first, the GATT was regarded as a provisional agreement until the ITO was formally established. However, it subsisted as a permanent agreement ruling the world trade system in place of the ITO Charter, which was not able to come into effect. Then the GATT became a core institution for promoting trade liberalization through multilateral negotiations.

The GATT superseded a series of reciprocal bilateral trade agreements, which had comprised a fairly elaborate network until the late 1930s.<sup>8</sup> Hence, the GATT was inevitably based on the principle of reciprocity.<sup>9</sup> However, the GATT was not based on specific reciprocity but diffuse reciprocity. This was because the United States took the initiative of trade negotiations during World War II and its aftermath (Milner, 1997: 138). And the United States advocated non-discrimination and diffuse reciprocity during this period. Therefore, unconditional MFN treatment became a principal measure of trade liberalization in the GATT.

Reciprocity originated in the equality of sovereignty. However, it is established neither as a legal system nor as a substantial regulation of international law. It can be considered merely as a basis for negotiation. In the early history of the GATT, it could be described as a guiding beacon for nations to begin the process of dismantling trade protectionism. The principle of reciprocity, however, faced serious challenges as the

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<sup>6</sup> Though fifty-three states had signed the ITO Charter, only Australia and Liberia ratified it.

<sup>7</sup> Participants of this round were the members of the ITO Preparatory Conference plus another four countries, which were Burma, Ceylon, Southern Rhodesia, and Pakistan.

<sup>8</sup> The 1942 agreement between the United States and Mexico is generally described as the model for the initial draft of the GATT that was submitted by the United States in 1946 (Hudec, 1987: 7).

<sup>9</sup> In the preamble to the GATT and Article XXVIII- bis emphasis is on the need for negotiations to take place on a reciprocal and mutually advantageous basis directed toward the substantial reduction of tariffs. Though reciprocity was not defined in the GATT, the director-general of the GATT defined it as “the equivalence of concessions” (Keohane, 1986: 8).

GATT process developed.

#### **IV-2. Restriction in free riding**

First, there was a problem with free riding. In the GATT agreements, the unconditional MFN clause prescribes that any bilateral agreement should be applied to other member states. This implies that states signing the GATT could take advantage of benefits without any binding agreement with others.

It can be argued that the early GATT tariff negotiations were multilateral only in name. In reality, they were bilaterally negotiated between the principal supplier states and principal consumer states based on reciprocity. The results of such negotiations were given to all contracting parties of the GATT on an unconditional MFN basis. Strict application of the MFN clause inevitably induced free riding.

The free-rider issue originates from the contradiction between two core principles of the GATT: non-discrimination and reciprocity. Concessions such as reducing tariffs and elimination of non-tariff measures given by unconditional MFN are not reciprocal but unilateral. One side that gives concessions can not expect returns from the other side. In this point, the principle of non-discrimination embodied in the unconditional MFN clause contradicts the principle of reciprocity, which is explained as one side giving to the other and the other returning with equivalency.

However, the notion of diffuse reciprocity was able to resolve this contradiction because of its tolerance of equivalency. Based on diffuse reciprocity, it is regarded as enough equivalent that one side gives unconditional MFN treatment and the other side gives in return commitment of unconditional MFN treatment. It does not matter what kind of benefits are exchanged by unconditional MFN. And the United States, who played a leading role in the round negotiation, tolerated free riding at first because the costs of coercion and policing outweigh the benefits that would be provided by more stringent enforcement (Krasner, 1987: 1).

However, as member states increased, the bilateral negotiations became more complicated and difficult. Complaints about free riding were raised by some states, who were required to reduce tariffs after negotiations. In addition, the United States itself could no longer permit free riding because it had to tackle economic stagnation and loss

of hegemony.<sup>10</sup>

There were two measures for resolving this free riding problem: one was to renounce unconditional MFN treatment, and the other was to restrict application of diffuse reciprocity with procedure of the round. The GATT could not modify its fundamental principle of non-discrimination. Then it tried to minimize the cost of diffuse reciprocity by changing operational procedures. After the Kennedy Round (1964-67), the GATT came to introduce a “package deal” in the decision-making process that effectively excluded free riders. The GATT not only obliged all the member states to participate in consensus building, but also decided to deal with the whole problem as an integrated package.

However, the United States recognized that it could not entirely obtain the expected benefits by non-discriminatory liberalization based on diffuse reciprocity. It began to put more emphasis on approaches based on specific reciprocity. Within the framework of the GATT, the United States advocated utilization of the “multilateral agreement” at the Tokyo Round, while it made use of bilateral negotiations outside the framework of the GATT.

### **IV-3. Treatment of Developing Countries**

In applying the reciprocity principle, it became questionable whether equal treatment of unequal partners in trade negotiations could ever be considered reciprocal. According to Winham (1992: 50), reciprocity as a concept ran into difficulties when developing countries acceded to the GATT.

#### ***IV-3-(1) In the process of drafting the ITO Charter***

The first draft of the ITO Charter in December 1945 incorporated the idea of one set of rules applying to all countries, and it contained no special provisions for developing countries. Because the proposed Charter was based on the principle of sovereign equality, it might bring substantial inequality between developed countries and developing countries. Therefore, when the United States presented the proposed

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<sup>10</sup> The situation of U.S. policy insisting upon specific reciprocity in bilateral relationships was very similar to the situation which brought about the “fair trade movement” and “Chamberlain Campaign” in Great Britain in the period from the end of the nineteenth century to the beginning of the twentieth century (Arakawa, 1989: 12-16).

Charter, developing countries, such as India, China, and Latin-American countries, raised objections and demanded to insert special rules or exceptions for developing countries.

After repeated negotiations and compromises between developing countries and the United States, the ITO Charter contained provisions for developing countries in the third chapter of “Economic Development and Reconstruction.”

Though the ITO Charter never came into force as mentioned above, some provisions of the draft ITO Charter survived in the GATT. Commercial policy provisions were incorporated as significant rules to assure tariff concessions and to promote trade liberalization according with the non-discrimination principle. Regarding the “Economic Development and Reconstruction” chapter, however, only one provision on infant-industry exceptions for tariffs and quantitative import restrictions (Article XIII of the ITO Charter) was included in the GATT, which is article XVIII of the 1947 GATT. The GATT did not take into consideration differing levels of economic development among participants, and it had started as an institution based on liberalism, reciprocity and formal equality.

#### ***IV-3-(2) Review Session (1954-55)***

The GATT became the fundamental document for an international institution and for ruling the world trade system when it became impossible for the ITO Charter to take effect. Therefore, the GATT had to be reviewed to assure that it played the expected role of the ITO sufficiently.

It was a chance for developing countries to reintroduce the ITO provisions that allowed protective actions or policies in the name of economic development. However, developed countries still got the majority at that time, and developing countries had neither negotiating power nor theoretical force to cause the basis of the GATT system to be reconsidered (Hyuck, 1998: 74). Thus, the Review Session amendments made no major changes in legal relations between developed and developing countries (Hudec, 1987: 28).

There were three points revised. First, Article XVIII authorized protective measures for infant-industries more positively and more tolerantly. Second, the new provision, Article XVIII (bis) was added which relaxed requirements for applying

quantitative restrictions to limit imports in times of serious balance-of-payment disequilibrium. Third, the Review Session agreed that strict application of the reciprocity principle to multilateral negotiations might not be demanded. Article XXVIII (bis) provides that contracting parties should consider “the needs of less-developed countries for a more flexible use of tariff protection to assist their economic development and the special needs of these countries to maintain tariffs for revenue purposes.” This is regarded to mean that “developed countries were not supposed to insist on full reciprocity for the concessions they are making.” (Hudec, 1986: 28)

#### *IV -3-(3) In the Late 1950s*

In the late 1950s, questions arose whether the liberalism on which the GATT system was based was appropriate as a guiding principle. The primary reason was that the export performance of developing countries never improved. Most of them changed their industrial policies from import substituting industrialization to export orientation. In order to secure markets for exports, developing countries began to demand that developed countries opened their markets unilaterally. They insisted on exceptions for reciprocity and that they be treated specially and differentially as well; they criticized strict application of reciprocity because it is extremely difficult to require the same level of concessions between states at different levels of economic development.

Developed countries gradually accepted the requirements of developing countries to the extent that it could keep the principles and fundamental framework of free trade (Hyuck, 1998: 74). This was because, firstly, the GATT had been established to promote growing exports for every country including developing countries, and secondly, the United States and some developed countries who supported the United States wanted to make the GATT a universal institution in order to achieve multilateral trade liberalization.

In 1957, the GATT established an experts group to study the issue of trade and development. The experts group submitted the Haberlar Report in October 1958, which recognized the necessity to expand market access for economic development and insisted that developed countries should liberalize and reduce tariffs, especially those on

primary commodities from developing countries.<sup>11</sup>

Based on this report, developing countries proposed the Action Programme to the Ministerial Meeting of the GATT, which adopted the Programme. The Action Programme had two goals. One was to persuade developed countries to negotiate at the round without insisting on too much reciprocity from developing countries. The other was to appeal directly for unilateral trade liberalization by developed countries (Hudec, 1986: 42). Both of these demands implied changing the concept of traditional reciprocity or permitting exceptions to reciprocity.

#### *IV -3-(4) In the early 1960s*

At the Ministerial Meeting in November 1961, the contracting parties agreed that “a more flexible attitude should be taken with respect to the degree of reciprocity to be expected from [developing countries]”, and adopted the Declaration on Promoting the Trade of Less-Developed Countries, which asserted the need for unilateral concessions by developed countries (the GATT, 1962: 20).

The Declaration proclaimed as follows:

**The success of the efforts of developing countries will depend to a great extent upon their ability to find the necessary markets. Accordingly, contracting parties should reduce to a minimum restrictions inhibiting access to markets for the export products of the less-developed countries. The governments of the major industrialized areas, on whose markets the less-developed countries must necessarily largely depend, recognize a particular responsibility in this respect.**

**In negotiations for reductions in barriers to the exports of less-developed countries, contracting parties should adopt a sympathetic attitude on the question of reciprocity, keeping in mind the needs of these countries for a more flexible use of tariff protection. In making arrangements to bring about a general reduction of tariffs, account should also be taken of the special needs of less-developed countries. (the GATT, 1961: paragraph 2 and 5, underlined by the author)**

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<sup>11</sup> The Haberlar Report was worthy of note in that it treated the issue on trade expansion of developing countries, while Article XVIII aimed only at restriction of imports. However, there was criticism that it took the view of establishing developing countries as suppliers of primary commodities based on the theory of comparative costs (Saburi, 1990: 21).

One of the reasons for the concessive attitude of developed countries was that they became aware of the risk of applying strict reciprocity to developing countries. In the Cold War period, the western industrialized countries, especially the United States, came to recognize the need for unilateral concessions as aid to developing countries whom they wanted to co-opt to their camp.

Furthermore, at the Trade Ministerial Meeting in May 1963, the ministers accepted the objective of duty free access for tropical products with no expectation of reciprocity.<sup>12</sup> Developing countries did eventually “succeed in securing agreement to the idea of unilateral concessions at the level of principle” (Hudec, 1986: 45). The Ministerial Meeting agreed that new procedure rules should apply to the new round, the so-called Kennedy Round. The special rule for developing countries was as follows:<sup>13</sup>

**... every effort shall be made to reduce barriers to exports of the less-developed countries, but ... the developed countries cannot expect to receive reciprocity from the less-developed countries.**

#### ***IV-3-(5) At the Kennedy Round Negotiation (1964-65)***

The most successful result of the Kennedy Round for developing countries was the “special and differential treatment” embodied in the additional Part IV of the GATT.<sup>14</sup> Part IV described the significance and necessity of taking into account economic differences in development. The Article XXXVI-(8) setting forth exceptions to reciprocity said:

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<sup>12</sup> In 1962, the United States Congress authorized the elimination of duties on tropical products without reciprocity in the Trade Expansion Act of 1962, Section 213.

<sup>13</sup> This provision was originally understood by developing countries to mean that developing countries would not need to pay the reward for the concessions given by developed countries. Later, the official interpretation of this provision was agreed upon among contracting parties that developing countries should provide a return concession in proportion to what the developed country degree to (Takase and Akasaka, 1993: 46-7). A note to these provisions describes as follows:

“it is understood that the phrase “do not expect reciprocity” means, in accordance with the objectives set forth in this Article, that the less-developed contracting parties should not be expected, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs, taking into consideration past trade developments.” (the GATT 1947, Annex I, Notes and Supplementary provisions, Ad Article XXXVI, Paragraph 8)

<sup>14</sup> The addition of part IV owed to aggressive activity by developing countries in the United Nations Conference on Trade and Development (UNCTAD), which held the first conference in 1964. See Kasahara, 2001.

**The developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less-developed contracting parties.**

This clause originated from the fundamental principle of the international law of development, which claimed that every country should gain the same profits in substance.

In the notion of the international law of development, substantial equivalence is regarded as the goal rather than formal equivalence under the doctrine of sovereign equality. And Substantial equivalence should only be acquired with the preferential treatments for the weak. Therefore, developing countries demanded advantageous treatment for them and emphasized a new concept of “relative reciprocity”, which considers divergence in measuring equivalence of benefits.

After long negotiation, numerous exceptions to reciprocity were granted by the industrialized GATT signatories in favor of developing countries at the Kennedy Round and the subsequent Tokyo Rounds (1973-79) as well. These exceptions are referred as “special and differential” treatments. It was remarkable that the GATT accepted such provisions as dividing the contracting parties into the categories of developed and developing countries, because the GATT had declared respect for the sovereign equality principle.

However “special and differential” treatments had no effect at the tariff negotiation for the following reasons. First, Part IV is set merely as an suggested target, and it does not prescribe any right of developing countries nor any duty of developed ones. Developed countries were not obliged to give any preference to developing countries. Second, developing countries had no chance to participate in the negotiation because the Kennedy Round was conducted only by reciprocal negotiations among developed countries.

## **V. Concluding Remarks**

Reciprocity consists of two essential elements: contingency and equivalence. If equivalence is emphasized more, it becomes specific reciprocity, which requires the

precise equilibration of benefits. For specific reciprocity, a bilateral relationship is most appropriate because it is easier to balance the exchange of benefits when there are fewer participants.

In contrast, diffuse reciprocity puts more significance on contingency than on equivalence. It implies that the giving side can expect consequent rewards from the receiving side but cannot expect symmetrical return. In general, diffuse reciprocity is suitable for a multilateral relationship because agreement can be reached with less effort among many parties if equivalence of benefit is measured to a broader extent.

Both notions of reciprocity have been key principles in trade liberalization. Reciprocal provisions based on specific reciprocity promoted tariff reduction were incorporated in many bilateral trade agreements before World War II. Meanwhile, diffuse reciprocity contrived unconditional MFN treatment, which was the principal measure of trade liberalization of the GATT.

However, each reciprocity has a defect in its nature for realizing free trade at the global level. History shows specific reciprocity calls up a retaliatory relationship. It has been used as a tool for protectionism as well. Such behavior stems from its character, which is oriented toward a “tit for tat” policy. On the other hand, diffuse reciprocity inevitably brings the problem of free riding because of its tolerance of equilibration.

The interpretation and the application of reciprocity depend on the policies of principal trading nations. In recent years, the countries are showing increased interest in the bilateral and regional FTAs. However, it must be noted that there is always the possibility that the FTAs will invite protectionism instead of trade liberalization.

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