

Book Review for *Economica*

Going Alone: The Case for Relaxed Reciprocity in Freeing Trade.

Edited by JAGDISH BHAGWATI. The MIT Press, London. 2002. 586 pp. Cloth £39.95.

One of the longstanding questions in international economics is how to get a country with an economy mired in import protection to one characterized by free trade. Reciprocity and unilateralism are the two most popular answers that economists propose. Unilateralism, or “going alone” with trade liberalization, is the standard policy prescription for a small country that, by definition, cannot affect the world price of the goods that it buys and sells. The economic rationale is that such a country is not likely to suffer aggregate welfare losses as it moves from a system of protection to one of liberal trade, and thus, in theory, it does not need to be “compensated” or given additional incentives to make such a policy change. On the other hand, reciprocity is the prescription for “large” countries that can affect their terms-of-trade. Because unilateral liberalization by such a country could increase the relative price of its imports and lead to a reduction in aggregate welfare, such a country requires an incentive to engage in trade liberalization. One such form of compensation is the “reciprocal” liberalization undertaken by its trading partners.

How relevant are the economic theories of unilateralism and reciprocity to the trade liberalization experience? This is the question taken up by a recent volume of collected essays written by a number of prominent researchers in economics and political science and edited by Jagdish Bhagwati. This is a particularly challenging task, especially for the case of unilateralism, given that there are not a lot of “clean” natural experiments with which to work. In investigating

this very important question, the papers in this volume represent a diverse set of approaches: historical, institutional, country, regional and sectoral.

The volume leads with an introduction and review of the basic theory presented by Bhagwati, before turning to “historical” and “institutional” chapters that put reciprocity and unilateralism into context. John Conybeare describes England’s experience with unilateralism in the nineteenth century, and Doug Irwin details how the US’s adoption of reciprocity influenced its trade liberalization experience following the Smoot-Hawley tariffs. Two “institutional” chapters discuss the role of reciprocity within the rules and process of international trade negotiations under the General Agreement on Tariffs and Trade (GATT) and World Trade Organization (WTO). Alice Enders describes how the reciprocity rule was implemented and then evolved as a legal principle during the GATT regime. J. Michael Finger, Ulrich Reincke and Adriana Castro discuss the negotiations and data from negotiated outcomes to describe the reciprocity experience of the Uruguay Round that led to the WTO being implemented in 1995.

The remaining nine chapters provide case studies on country, regional and sectoral experiences with liberalization, structured around examples of unilateralism. Country coverage includes the experiences of Australia (Ross Garnaut), New Zealand (Lewis Evans and Martin Richardson) and Chile (Sebastian Edwards and Daniel Lederman). Arvind Panagariya provides a survey of the Asia’s trade liberalization, Patrick Messerlin describes the recent experience of Central European countries’ brief engagement with unilateralism before retreating to preferential agreements with the European Union, and Rachel McCulloch documents the evidence of trade reform undertaken by Latin American economies aside from Chile. Lawrence White and Koichi Hamada provide, in separate chapters, discussions of the financial sectors’ unilateral

liberalization in the United States and Japan, respectively. A final chapter by Cynthia Beltz Soltys describes the relationship between the internet and liberalization of the telecommunications sector.

The country and regional chapters in particular successfully provide both a political economic survey of the country-specific features of each particular case study, as well as a guide to related research. On the other hand, while the particular *sectoral* case studies are interesting choices, the industries themselves may not be representative for a book focused on trade liberalization. Some of the defining economic characteristics of the financial services and telecommunications industries, such as scale economies and/or network externalities, are not necessarily captured by the theorist's standard trade liberalization model which typically assumes perfectly competitive markets without market failures or externalities. Nevertheless, this is an understandable compromise given the relatively few real world experiences with unilateral liberalization at the sectoral level.

The primary limitation of this book is the lack of cohesion typically found in a collection of articles written by a diverse set of researchers. The link between empirical evidence and the formal underlying theory is also sometimes weak. Furthermore, some chapters tend focus solely on reciprocity while others address only unilateralism, and it would have been useful to have more discussion of why reciprocity might have been more (or less) successful than unilateralism (or vice versa) for any given case study. Thus, the reader should not expect this text to provide conclusive evidence as to the appropriate path to liberal trade. Instead, what the reader will find is that the authors have identified and highlighted a set of interesting case studies on experiences in reciprocity or unilateralism that are worthy of further examination in greater empirical detail,

especially given recent theoretical advances that are developing elsewhere in the trade policy literature. Evidence of this last point is the exciting new research by some of the most innovative economic theorists currently working in the field (e.g., Wilfred Ethier, Kyle Bagwell, Robert Staiger, Pravin Krishna, Devashish Mitra, to name but a few), who have each recently written papers with new theoretical approaches to this topic, using techniques from the frontiers of research in international trade, game theory and political economy.

The real value of this book to the field is that it draws attention to the topic and begins to offer a unifying framework by which researchers can characterize and categorize liberalization experiences. And while the central organizing question under investigation – unilateralism versus reciprocity versus “other” - may be an old one; it is still unresolved, it is still interesting, and it is still important. Before turning to this new research on the question first posed – how do economists recommend that countries get to free trade – I suggest the interested researcher first consult this book and learn about the real world experiences with economists’ policy recommendations on unilateralism and reciprocity.

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