

how much GATT actively achieved. It isn't that tariff reductions the world over have not taken place. Starting with the first round of GATT talks in Geneva (1947), world tariffs have been reduced from an average rate of 40% in 1947 to around 4% in 1994 (Staiger [1995]), which is an enormous achievement. However, there are two obstacles to declaring this accomplishment a GATT success: first, along with the reduction in baseline tariffs the list of exceptions, special cases, reactions to "unfair" circumstances, and various forms of special (nontariff) protection has grown, and second, it is difficult to estimate how much of this progress would have been made anyway, with or without some organization like GATT in the background.

Nonetheless, GATT probably played a central role as an explicit coordination mechanism that permitted countries to negotiate or renegotiate trade agreements. It also played a role in the flip side of agreements: that is, as a framework to assess appropriate retaliations (either unilateral or on a multilateral basis) in case agreements were not complied with. Note that this flip side is of paramount importance: unlike the laws that govern breaches of contract domestically, there is little or nothing the international community can do to *legally* punish the governments of entire countries. Thus all agreements must, in a sense, be self-enforcing, and coordination of the enforcement mechanism can result in more ambitious and rewarding agreements. Finally, the psychological impact of GATT as an *obligation* cannot be understated. To the extent that a country wished to appear to be a responsible and sensitive citizen of the world community of nations, GATT provided a focus around which such responsibilities and sensibilities could be visibly expressed.

This brings us to a major question to be studied in this chapter. If GATT, or more generally, multilateral agreements, act as a coordination device for achieving mutually beneficial trade outcomes, this must be because there are serious grounds for such failure of coordination in the first place. The unilateral actions and reactions of a single country (the subject of Chapter 17) tell only a part of the story. The fact that country *A* places a tariff on the product of country *B* often ignites responses by country *B* that perhaps would not have been forthcoming in the absence of the initial move by country *A*. Thus the United States might consider a punitive levy on Japanese car imports in the face of perceived injustices perpetrated by Japan on exports by the United States to that country. Alternatively, faced with stiff tariffs on textile exports to the European Union (EU), a developing country might react by placing limits on EU trade with that country.

One interpretation of this situation is that trade wars are similar to the bad equilibrium of some *coordination game* [see Chapter 5 and Appendix 1 (at the end of the book) for extended discussions]. That is, both free trade and restricted trade are equilibria of the game. Under this view, multilateral organizations serve as a coordination device to attain the "good" free-trade equilibrium of the coordination game.