

Market Access and Trade Policy: Theory and Practice in the Context of the FTAA

The Theory of Tariffs and Quantitative Restrictions

As with any exercise in fashioning a free trade arrangement the intention is to remove barriers to trade in their many forms from the reduction (perhaps elimination) of tariff barriers, quantitative restrictions and the execution of any number of business facilitation measures intended to enable more robust commercial interaction across borders, change of trade practices and facilitating the easier movement of factors of production in this respect. Just as tariff barriers remain an impediment to global trade, which is currently increasing at some 8% a year, these barriers at the hemispheric level exert bottlenecks on free trade imperatives in the Americas.

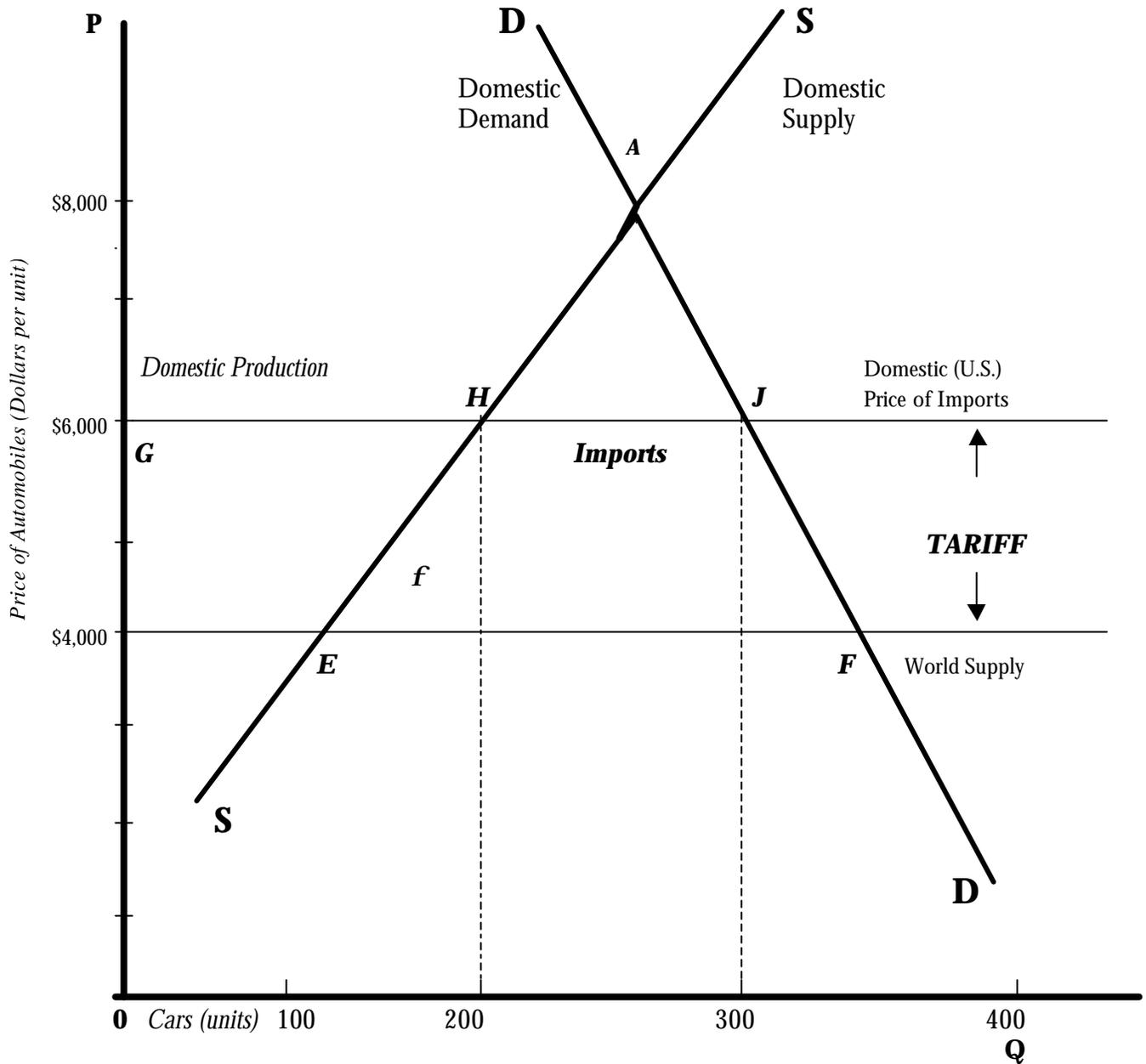
An import tariff is a tax collected on imported goods; the tariff may be levied either through the use of specific tariffs or ad valorem tariffs. An import tariff is distinct from an import quota which, as the name reflects, serves to limit the quantity of goods imported in the country during a given time period. The import quota can either be a binding or non-binding quota. Quotas have similar qualitative effects as tariffs. The quantity of any given imports are typically limited, through the employ of absolute quotas, to a specified level during a set period of time. On the other hand, a tariff-rate quota allows a specified quantity of goods to be imported at tariff rates that are reduced during the specified quota period.

The effects of a tariff and quota are illustrated in the graph below using the example of a hypothetical and uniform U.S. tariff on imported automobiles.

The graph illustrates an equilibrium scenario in the automobile market with a tariff of \$2,000. With a \$2,000 U.S. tariff on automobiles entering its market the result is a \$6,000 U.S. market price as opposed to the \$4,000 world price. With a tariff there would be less of a propensity for consumers to purchase the foreign automobile, resulting in a decrease in units imported (as illustrated in the graph). Similarly, placing a quota equal to the length of HJ in the graph would have the same effects, everything else ceteris paribus, as a \$2,000 tariff in the context of a reduction in consumer demand for imported automobiles. The only real difference between a tariff and a quota would be that a tariff serves as an income generator for the government whilst a quota system benefits those importers, fortunate enough to secure an import license, as a result of the profits that would flow out of such an arrangement.

¹ A tariff is a duty or tax levied on goods (imports) arriving from one customs area to another either for protective or revenue purposes. A tariff can either be prohibitive or non-prohibitive where the intended outcome of the former is to *completely* discourage certain imports and the latter serving to reduce the volume of certain imports. A tariff calculated *according to value* or as a percentage of the value of goods passing through customs is an ad valorem tariff. A compound tariff is the combination of an ad valorem tariff plus a 'specific' tariff which is a customs duty levied as a fixed charge per unit of physical quantity of imports.

A Simplified Illustration of the Effects of a Tariff and Quota Levied on the U.S. Automobile Import Market



However, a tariff results in inefficiencies; the \$2,000 tariff on automobile imports into the U.S. market has the obvious effect of raising prices, this results in consumers uneconomically cutting back on their purchases of tariffed goods and encourages inefficient domestic production due to higher marginal costs. Inefficiency as regards higher costs incurred by domestic firms engaging in substitutive production is reflected in 'area *f*' in the above graph.

The Evolution of Trade Policy Modalities

Historically, a classic method employed to measure the degree of protectionism within an economy has been the *average tariff rate*. Tariffs have the obvious effect of reducing imports of foreign products and a visible reflection of this is a tariff that significantly curtails the degree of competition the country's import-competing industries would face. However, as successive Rounds of the General Agreement on Tariffs and Trade (GATT)² were primarily targeted at reducing this tariff burden, tariffs became less a capstone of national trade policy and were complemented by other measures that worked to lessen the burden of exogenous trade competition on domestic companies. A prime example of such measures that emerged in the latter part of the last century were non-tariff barriers, some of which are still employed today. Non-tariff barriers have increasingly become more conspicuous impediments to trade, serving to distort and restrict international trade. Actual protection has shifted toward more bureaucratically controlled forms of contingent protection such as antidumping actions, sanitary/phytosanitary standards, etc..

OECS Trade Policy

Organization of Eastern Caribbean States (OECS)³ – in particular the Windward Island banana exporters – trade relations historically have been premised on preferential market access arrangements. With aspects of the Lome Conventions being viewed as derogations to fundamental WTO trade-based disciplines in the 1990s the sub-region had to come to terms, in the twilight years of the 20th Century, with free trade reciprocity-based principles. By virtue of 'deeper' trade liberalization imperatives and being signatories to hemispheric and multilateral trade-related disciplines in particular, trade strategies/policy governing trade relations with countries outside the Caribbean region have had to evolve. Conventional trade policy in the sub-region has been characterized by:

- High tariffs;
- Robust use of quantitative restrictions, special/discretionary treatment as well as discretionary licensing.

Despite delays in the original timetable for harmonizing tariff schedules and reducing tariff protection significant headway was made by OECS Member States, as regards the Common

² The GATT had 23 signatories when it came on stream in 1948, and 84 signatories by the end of the Tokyo Round in 1979. More than 110 countries signed the Uruguay Round accords in Marrakesh in April 1994 (including several countries with observer status in the GATT). As of January 2000, the WTO has 135 members with an additional 31 in the process of accession. At the close of the 8th Round of GATT negotiations the average ad valorem tariff on industrial goods had fallen from some 40% to just below 4% (although high barriers remain in agriculture and apparel).

³ The nine OECS Member States are Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines; Anguilla and British Virgin Islands are Associate Members of OECS.

External Tariff (CET) (*see Annex: Appendix 1*) in the latter 1990s.⁴ Clearly, Member Countries within the CARICOM framework as a whole are committed to free trade in fact their free trade credentials – at the regional level - are not in question⁵ given that the majority of tariffs on intra-regional goods have been eliminated as have a significant number of non-tariff barriers to trade.⁶

The Advantages and Disadvantages of Securing Tariff Concessions

The obvious advantages of free trade for any economy is an increase in aggregate efficiency; this efficiency improvement reflects gains in production and consumption efficiency. Beyond this, beneficial trade policy is one that raises domestic national as well as world welfare – often one occurs at the expense of the other, as regards aggregate welfare. Any trade policy's impact on increasing welfare imperatives, then, is a reflection of the extent to which it has the capacity to correct prevailing market imperfections or distortions, i.e. any deviation from the assumptions of perfect competition. For developing countries the most positive implications of any free trade arrangement is that trade liberalization and all its accouterments results in more pronounced market access arrangements to larger markets.

Consider, however, that historically trading nations have relied on tariffs as a principle source of funds for their government budgets. As trading modalities between nations increasingly move away from the imposition of accessive tariffs the implications for national revenue generation are obvious⁷, especially for developing countries where sources of revenue are constrained in the first place due to the many fiscal realities it must typically face with domestic tax payers in small internal markets. Secondly, industry-related adjustment (as are the costs that come along with it) is implicit in any move to free trade because while firm output rises, unfortunately productive inefficiencies have a greater propensity to and in the main do rise in tandem. The implications for factors of production are obvious as concessions would have to be made in the levels of employment of both labor and capital. Hence, the effects of industry-based adjustment are amplified and particularly resonate at the firm level. The conspicuous costs to the firm come in two forms in particular, the first being

⁴ Some Member States have yet to complete the final phase of tariff reduction. Antigua & Barbuda has only implemented Phase I of the CET; Dominica and Montserrat have not implemented the fourth phase; and, St.Kitts and Nevis has not fully implemented the CET.

⁵ With the nine Protocols pursued since the mid-1990s clear rules and timetables have been embarked on so as to facilitate the establishment of a common market.

⁶ Despite the recent progress in trade liberalization and the resulting policies on tariff protection, important non-tariff barriers – although addressed on paper – are still utilized in the OECS. These barriers include import licenses (often with a tied quota) especially for 'Article 56' products; affecting both CARICOM goods as well as extra-regional products. 'Article 56' provides infant industry protection to the manufacturing sector in the OECS and Belize. Under 'Article 56' of the Annex to the Treaty establishing CARICOM less developed countries, such as those in the OECS, were allowed to protect their industries against imports from more developed countries.

⁷ In 1999, taxes collected on international trade represented over 55% of tax revenue in the OECS Member States as a whole.

the loss of use of resources (both labor and capital) and a more medium- to long-term ramification the opportunity cost of lost production. Then there are administrative costs to trade liberalization; consider that as developing countries like those of the OECS proceed with the execution of commitments/obligations made in trade agreements such as the WTO, costs are incurred. A World Bank economist has estimated that a 'typical' developing country must spend \$150 million to implement requirements under less than half a dozen WTO Agreements, e.g. customs valuation, sanitary and phytosanitary measures and trade-related intellectual property rights to name a few.

Improved Security of Market Access and Tarrification Policy: A Recommendation for an approach to a Market Access Strategy in the FTAA

Arguably, one of the most notable successes of the Uruguay Round was the improvement secured in the conditions but more so the security of market access in respect of tariff bindings or the spread of tariff bindings.⁸ The effect of the spread of tariff bindings are felt most conspicuously on non-tariff barriers – specifically, the prohibition of such barriers. That having been said, at the multilateral level a large number of products are still affected by significant tariff barriers and associated high variance in respect of tariff peaks⁹ and their escalation. At the hemispheric level, OECS Member States have to be cognizant of the fact that while tariff reduction will be advanced by the larger economies, it may be done selectively – as has been evidenced at the multilateral level. There must be an across the board trend of reduction/concessions in tariffs but especially tariff peaks and associated escalation practices especially in the areas of agriculture and associated subsidy protection. What is key to any approach to the tariff issue is the 'harmonization' of tariff targets. Ultimately, as far as the market access objectives of the developing countries of the OECS are concerned they will rest in securing lifting of market access barriers in developed (and larger developing) country markets for products of a lower value-added/technological content.

Small open economies' imports make up just a minor share of the world market, thus when a tariff is executed by a small country (a price-taker in international markets), there is no effect upon the world price.¹⁰ Hence, small economies – especially small developing economies' - approach to tarrification and market access negotiations must be fashioned by and premised upon the understanding that tariff reduction on their part must be

⁸ WTO tariff bindings vis-à-vis the OECS Member States are heterogeneous, however, some schedules are similar. Tariffs in agriculture have been bound at a ceiling rate of 100% although bindings, *per se*, are at different rates. There are exceptions for some islands that have bindings that exceed 100% and those that are below that ceiling. Similarly, OECS non-agricultural products are bound at a ceiling rate of 50%, however, certain exceptions do exist as relates to Dominica, St. Lucia and St. Kitts and Nevis.

⁹ Peak tariffs typically constitute rates above 12% ad valorem; resulting in rates of protection to domestic producers of up to 50% (UNCTAD, 2000). See UNCTAD, *The Post-Uruguay Tariff Environment for Developing Country Exports: Tariff Peaks and Tariff Escalation* (UNCTAD: January, 2000).

¹⁰ Similarly, when a quota is implemented by a small country, there is no effect upon the world price.

commensurate with 'size' and 'development' circumstances and sensitive to 'second best' realities (see Annex: Appendix 2) as regards their trade relations. Similarly, aggressively protecting arrangements such as those that exist at the multilateral level aimed at promoting small developing economies' exports and export opportunities such as the Generalized System of Preferences (GSP) must also remain the center-piece of their trade relations.¹¹ The extent to which Caribbean Community and Common Market (CARICOM)¹² countries, including OECS, are able to secure concessions as relates to reciprocity, engendered in special and differential treatment (S&DT) imperatives, in the Free Trade Area of the Americas (FTAA) will determine the extent to which their strategic interests will not be compromised in a number of areas. Specifically, reference is made here to certain aspects of safeguard measures, tariff and non-tariff measures, qualifying conditions in the rules of origin, approach to legislation as regards distributorship, approach to customs procedures and technical barriers to trade, and treatment of goods produced in or shipped from free trade zones.

OECS' Strategic Approach to the Draft Text of the FTAA Market Access Negotiating Group

The first phase of FTAA negotiations culminated in the Toronto Ministerial of November 1999; the second phase is due to be completed in April 2001. The Toronto Ministerial mandated that Draft Texts be completed for each one of the Chapters of the respective Negotiating Groups. Such a Draft Text - (*FTAA.ngma/02*) - was fashioned for the Negotiating Group on Market Access in the latter part of 2000 and it takes into account the following: tariffs, non-tariff measures, safeguards, rules of origin, customs procedures and technical barriers to trade. The Negotiating Group has also advanced the discussions on the modalities and procedures for tariff negotiation and studied the interaction between itself and the Negotiating Group on Agriculture; and submissions on these have been made to the Trade Negotiating Committee (TNC). A number of elements/areas of the Draft Text for the Negotiating Group on Market Access are 'square bracketed'.

The following is a sample of 'some' pertinent issues in the Draft Chapter that warrant the attention/consideration of OECS Member States to either establish positions or provide guidance on¹³ (please cross reference with *FTAA.ngma/02*) :

¹¹ One of the notable results of the post-Uruguay Round GSP arrangement has been duty-free treatment for any tropical products entering the markets of Canada, European Union, Japan and the United States from least developed countries. That having been said, a large majority of least developed country industrial exports, such as textiles, clothing, footwear, etc., continue to be excluded from the GSP arrangement.

¹² Membership of CARICOM is open to the following countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and any other State of the Caribbean Region acceptable to the membership in accordance with Articles 1, 2 and 29 of the 'Treaty Establishing the Caribbean Community and Common Market'. Article 3 recognizes the Bahamas, Barbados, Guyana, Jamaica and Trinidad & Tobago as 'More Developed Countries' and all the others as 'Less Developed Countries'.

¹³ CARICOM states – at this stage - are unable to react to the proposals in *FTAA.ngma/02* as regards methods and modalities for tariff negotiations.

- *Tariff and Non-Tariff Measures:*

With regard to the proposed text on methods and modalities of tariff elimination CARICOM has not been in a position, thus far, to comment on the proposals put forward. There is a need for further in-house consultation where it will be in CARICOM's interest to define what is best for the region in relation to base tariff, reference period, schedule and pace of tariff elimination and types of tariff concessions.

Commitment to complete elimination of non-tariff measures on entry into force of the Agreement (Article 10). The position that CARICOM has taken especially in its bilaterals is that commitments should be made from the outset to reverse non-tariff measures such that the only inhibitions to free trade would be tariff-based.

Identification of the special regimes to be provided for (Article 5).

Level of commitment to Articles 5.3 and 14. Of relevance in regard to Article 5.3 is that goods coming out of free zones as outlined in the Treaty of Chagaramas in the context of intra-regional trade will not enjoy duty free allowances. This is currently under review by a task force under the auspices of CARICOM where a final judgement is still pending regarding validating the Chagaramas position or not favoring it.

- *Safeguards:*

CARICOM has not signaled a position on this and as such guidance is needed. More fundamentally, given the level of commitment thus far expressed on this in the Negotiating Group by national delegations, we have to ask the question – is there a need for a Chapter or will the relevant WTO Agreement suffice. Consider that OECS Member States – that do not have domestic legislation with respect to safeguards – in addition to following multilateral safeguard rules also apply CARICOM rules (that *per se* should be employed for trade under CARICOM preferential rules) on safeguards to third countries.

Use of only tariffs in Safeguard action (Article 3).

The modalities to be incorporated (Article 4).

- *Origin Regime:*

In respect of the qualification as 'originating' the CARICOM draft proposal is at Text Proposal 4 at Page 45; in this context detailed provisions need to be considered. Furthermore, an approach to the qualifying conditions in the rules of origin needs to be fashioned in the CARICOM negotiating position. Closely related, in this context, are the treatment of goods produced in or shipped from free trade zones and the approach to legislation regarding distributorship.

The list of 'minimal processes' (Article 5).

The (exhaustive) list of items to be considered 'wholly obtained or produced' (Article 1.1).

- *Customs Procedures:*

Scope of the Chapter – should, for example, Articles 9, 10, 15 to 21 be included?

- *Customs Procedures Related to Rules of Origin:*

Certification, including use of a certificate, total certification and certification by an authorized body (Article 1).

Verification, including conduct of verification by the exporting or importing authorities (Article 3).

- *Standards and Technical Barriers to Trade:*

Should there be a Chapter on technical barriers to trade or is the relevant WTO Agreement adequate?

Concluding Remarks

The above review of market access issues is not meant to be exhaustive. It is a review of market access liberalization in theory. The review also relates to policy aspects of hemispheric trade in the context of broad recommendations and specific areas/elements of the FTAA Market Access Negotiating Group that Member States need to establish positions or provide guidance on prior to the next 18 month cycle of the FTAA negotiating process starting with the move of the FTAA Secretariat to Panama.¹⁴

Implicit in the above text is the recognition that while it is widely agreed that the global approach to reciprocal liberalization is fundamentally superior to regional liberalization because it maximizes the number of foreign markets involved; the regional approach to liberalization has played an increasingly more prominent role in the liberalization process over the last two decades. Regional trade arrangements strive to be more ambitious and pursue free trade imperatives in a more robust fashion. In fact, often regional trade arrangements were born out of a malaise in global free trade initiatives; for example, when the Uruguay Round faltered in the late 1980s, Canada, Mexico and the U.S. launched the North American Free Trade Agreement (NAFTA).

The FTAA is clearly modeled on a trade policy thrust that has built on the willingness of countries to shift from import protection to export promotion through the removal of barriers to trade in foreign markets. Clearly, for the OECS through the successful negotiation and execution of tariff and non-tariff barrier removals market access

¹⁴ The shift of the FTAA Secretariat to Panama will be on March 1st, 2001 ending February 2003.

commitments of particular strategic interest to these countries can be secured. A less obvious benefit, but nonetheless important, from the FTAA for the OECS is that through market access frameworks it will help to seek remedies for aspects of other agreements that they are not party to, i.e. NAFTA, that discriminate against them.¹⁵

Beyond this, market access frameworks that OECS Member States are party to in the FTAA will have the ancillary benefit of advancing the liberalization process within these countries. Of particular relevance to policy-makers in the OECS is to build on this and explore ways in which they can utilize the FTAA negotiations to advance, buttress and support their own government's reforms – especially in the area of market access. This thinking, ofcourse, must be tempered with the understanding that *integration*, be it hemispheric or multilateral, is **not** a substitute for a development strategy nor is it a shortcut to development; neither economic theory or empirical evidence have yet to prove a *systematic* relationship between a countries' average level of tariff and non-tariff barriers and its economic growth rate.

The FTAA has been met with tremendous enthusiasm and indeed it is fair to say has been driven by the Latin American countries. That same enthusiasm has not been evident in the OECS as is reflected in the inconsistent and often lack of participation by Member States in the FTAA process. It is an imperative that OECS Member States proactively provide guidance on issues raised in the section entitled "*OECS' Strategic Approach to the Draft Text of the FTAA Market Access Negotiating Group*", above, and reflect on their broader strategy for market access for the next 18 month cycle of the FTAA Negotiating Group on Market Access.



¹⁵ Related to this is the pursuit of remedies, through the FTAA, in response to the erosion of CBI preferences as a result of NAFTA.

ANNEX

Appendix 1

Customs Union

A customs union is an association formed when two or more sovereign states agree to eliminate or reduce trade barriers amongst themselves and to adopt a common trade policy toward non-customs union countries. A center-piece of such a union is a Common external tariffs (CET) regime. CETs have emerged in a number of regional trade arrangements. In Central America, for example, a customs union between Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua exists and is structured around a 15% ceiling applicable to 95% of items subject to tariff. Similarly, the Common Market of the Southern Cone (MERCOSUR)¹⁶ (whose trade liberalization programme has sought to establish a progressive, linear, automatic and across-the-board tariff reduction along with the elimination of non-tariff restrictions or equivalent measures in order to achieve a zero duty without non-tariff restrictions) has in place a customs union where the CET in place has duty rates from zero to 20% for some 90% of tariff lines. The Andean Group¹⁷ customs union has in place a CET that applies to 95% of items subject to customs duties with a 20% ceiling on five tariff brackets (Economic and Social Council, 1998).¹⁸ With respect to CARICOM the CET applies to imports from third countries at relatively high rates of up to 20 – 35%¹⁹ for industrial products and 40% for agricultural goods. Besides exceptions granted under Articles 28, 29 and 56 of the CARICOM Treaty, OECS Member States grant duty free access to imports from other CARICOM Member Countries.

Relations that members of a customs union have with those countries located outside the customs union are greatly impacted by the alignment of national tariffs to the common customs union levels. The degree to which favorable trading relations can be successfully cultivated especially with larger countries in a larger free trade arrangement is leveraged on the success of an existing customs union of small economies. Consider that by lowering the costs of imported goods and enlarging markets' customs unions stimulate commerce and industry within the union by allotting to each member a specialized economic structure so as to concentrate on those products that are relatively easier to produce and when necessary import other essential products from the member countries at minimal expense. What a well functioning and structured customs union succeeds in doing then is to strategically position member countries that are also members of larger trading arrangements – of particular relevance here the FTAA – to rely on multiple country strengths and approach issues of

¹⁶ MERCOSUR comprises Argentina, Brazil, Paraguay and Uruguay.

¹⁷ The Andean Group comprises Bolivia, Columbia, Ecuador, Peru and Venezuela.

¹⁸ United Nations Economic and Social Council, *Market Access: Developments since the Uruguay Round, Implications, Opportunities and Challenges* (United Nations Economic and Social Council, May 1998).

¹⁹ Levied on competitive tradeables, i.e. tradeables produced have to *constitute* and *satisfy* at least 75% of CARICOM demand.

tariffication having a homogenous position amongst themselves and thereby affect larger tariffication issues of a free trade arrangement in a fashion that is more favorable to them in a uniform fashion. As opposed to approaching market access policy bilaterally, then, common positions on issues of tariffication are established and with it uniform policy and strategic objectives about what is in the interest of the customs union and not just an individual country.²⁰

Appendix 2

Tariff Reductions and Implications for Pareto-Improvements in Trading Nations' Welfare

As articulated by the seminal works of Lipsey and Lancaster (1956)²¹ and Meade (1955)²² in their advancement of the 'theory of second best' is that reduction or elimination of given distortions (i.e. import tariffs) in a competitive equilibrium context, despite the fact that free trade may be Pareto optimal ('first best'), may not necessarily be welfare improving, especially for *all* involved. In fact, it has been found that an increase in import tariffs for given commodities for some trading nations will result in an increase in welfare. What is implicit in this is that the 'first best' route through the exercise of free trade is the preferred choice, however, in situations where exhaustive free trade is not attainable given distortions brought on by country-specific tariff practices a 'second best' option is available and especially for small open economies the most practical as regards the thrust of its respective trade policy. With 'second best' option reduction or elimination of given distortions this may have a greater propensity to enable and result in (but it is not guaranteed) welfare improving effects. Bruno (1972)²³, Lloyd (1974)²⁴ and Fukushima (1979)²⁵, however, have extensively demonstrated that proportional tariff reduction particularly does have welfare improving effects. Fukushima (1979) and Hatta (1977)²⁶ reinforce these findings by extending their

²⁰ The obvious problem with any CET arrangement lies with differences in economic structure and levels of development amongst consenting parties to the CET within the customs union. This fact is not lost on CARICOM where manufacturing sectors, in particular, are at different stages of development between the larger islands such as Jamaica and Trinidad & Tobago as compared with the OECS Member States. Compensating for this and indeed getting past this is often the biggest obstacle for a successful customs union.

²¹ Lipsey, R.G. and Lancaster, K., "The General Theory of Second Best", *Review of Economic Studies*, 24, 1956: 11- 32.

²² Meade, J.E., *Trade and Welfare* (Oxford: Oxford University Press, 1955).

²³ Bruno, M., "Market Distortions and Gradual Reform", *Review of Economic Studies*, 39, 1972: 373 – 383.

²⁴ Lloyd, P.J., "A More General Theory of Price Distortions in Open Economies", *Journal of International Economics*, 4, 1974: 365 – 386.

²⁵ Fukushima, T., "Tariff Structure, Nontraded Goods and the Theory of Piecemeal Policy Recommendations", *International Economic Review*, 20, 1979: 427 – 435.

²⁶ Hatta, T., "A Recommendation for a Better Tariff Structure", *Econometrica*, 45, 1977: 179 – 202.

studies, with the assumption of a two tradeable commodity model, to advance welfare improvements as a function of reductions of extreme ad valorem tariff rates.

In applying the 'theory of second best' to small open developing economies, it has long been held that small open economies in general have no 'first best' arguments for intervening in trade. It is an imperative, therefore, that these economies pursue free trade. However, as Mayer (1981)²⁷ argues a small country in tariff negotiations with a large counterpart often finds it optimal to accede to an import subsidy, as a result "the frequently made statement that free trade is best for a small country only applies to non-collusive situations" (144).

²⁷ Mayer, W., "Theoretical Considerations on Negotiated Tariff Adjustments", *Oxford Economic Papers*, 33, 1981: 135 – 53.