

Future multilateral trade negotiations are likely to achieve reductions in the external tariff barriers of both countries. One result of this process would be that the margins of preference that each would have into the other's market under an FTA agreement would be progressively reduced. At the same time, there is no reason to suppose that direct improvements in access achieved on a bilateral basis would be eroded through subsequent negotiations by either country with third countries.

The situation in an FTA would be quite different from that which characterized bilateral reciprocal arrangements made during the nineteenth century. Under those types of agreements, an improvement in bilateral access that was obtained under a particular treaty subsequently could be completely dissipated if one of the parties negotiated reductions in tariffs with a third country to levels below those available to the other partner to the original bilateral agreement. Impairment of bilateral market access could not occur in the case of an FTA agreement where the member countries go to zero tariffs among themselves.

The question of the longer-term effects of bilateral FTA agreements was recently considered by U.S. Secretary of State George Shultz:

From a global perspective, a splintering of the multilateral trading system into a multitude of bilateral arrangements would be a backward step. Bilateral free trade agreements, however, such as we have negotiated with Israel and have offered to discuss with other countries, need not have this result; they can stimulate trade and strengthen the multilateral system. Free trade agreements are sanctioned by the international rules and involve a tighter trade discipline; they can promote freer trade than the multilateral system is currently prepared to accommodate. Our hope, nonetheless, is that the example of greater liberalization — and the recognition that the United States can pursue another course — will help motivate a larger group of nations to tackle the job of expanding trade on a global basis.<sup>8</sup>