

International Trade System - General Agreement on Tariffs and Trade (GATT)

International Institutions 2021

Liberal international trading system of the 19th century

- **Change in foreign trade policy: Navigation acts liberalized in the 1920s; abolished 1849;**
 - **UK free trade doctrine;** unilateral abolition of customs duties and trade restrictions; **1860 Cobden-Chevalier Agreement** and **Bilateral Agreements (MFN);**
- **Trade imperialism:** promoting „free trade“ in **India, China, Persia, the Ottoman Empire, Thailand,** the obligation of low tariffs in Japan;
 - **Deindustrialisation,** but not an obligation to trade only with the home territory...;
- **Positive impact on the world economy:** Strengthening **specialization, dissemination** of technologies; **capital inflows** into areas with natural **resources;**
- **Gold standard system; British demand** - the **engine** of growth also for protectionists countries (USA);
- **International trade system:**
 - **world price, capital, information, migration;**
 - scope and depth of integration: **political regulation, colonies** as markets and sources of raw materials and commodities, promoting the interests of the **mother territories** (raw materials, food, sales); power asymmetry;
 - limits of international trade: **distance** and **transport** costs - large areas outside of system; small **size** of the **IT sector** outside the west;
- From the end of the 19th century **strengthening PROT; industrialization** of GER and Continent... (state intervention and **infant**); weakening of GB hegemony, **reconsidering** of **FT** position...

The consequences of the First World War

- **Pre-war** levels of international trade reached **1924**;
 - Extension of **borders** by the emergence of **new states** - problematic countries (nationalism - protectionism);
- **US** production and sales **expanded** during the war: raw material and food **prices high**, markets guaranteed;
 - **investment** in new technologies (farmers) and debt - **return to European competition** after the war;
- **Non-European** countries **lost** supplies of **industrial** products during the war and **industrialized**;
 - post-war European **competition returns**; European producers - faced new local producers, were **pushed** out by American competition; export **earnings** necessarily **needed**...
- **Germany**:
 - catastrophic result of the Paris **Peace Conference**, loss of territory (13% + 10% of the population) of raw materials (75% of ore, 25% of coal) (colonies occupied, foreign investments confiscated, import of raw materials without foreign exchange impossible), industry;
 - drastic **reparations** (\$ 33 billion 2x GDP); occupation of the Ruhr in 1922, no sources of money;
 - started **inflation** spiral (1: 4.2 1914 - 1: 4.2tril 1923); 1923 real GDP at 50% 1913; The **US** is starting to **lend**...

The Great Depression

- In the **struggling world**, the **US stock** market is still rising (Black Friday and Tuesday, October 24 and 29, 1929) (market value of NY shares: September 1929: 90 billion -> November 72 billion -> July 1932 15.6 billion);
 - **Commodity prices** down; **banks** in trouble (mortgages and demand immediate repayment of debts ...);
 - **Overemployment** (technological revolution) and **overproduction**;
- The US has contributed to the spread of the crisis: **protectionism** - **Smoot-Hawley** tariff 1930, already 1922 Fordney-McCumber tariff (protecting farmers and log-rolling);
- **Indebted countries** do not have access to markets and **USD**:
 - unilaterally **increase tariffs** in order to obtain them, **minimize imports** so as not to spend them, try to **export** in order to earn them (**devaluation** of the exchange rate);
 - in addition, **licenses**, veterinary and packaging regulations, **capital controls**, monopolization of foreign trade;
 - **developing** countries did not have sales for their **export commodities**, they had nothing to **buy Western exports** for...in addition, **falling** prices for **raw materials** and food (production restrictions problematic, surpluses ...);
 - decline in price levels - **deflation** - unemployment...previously restricting **immigration** to the US;

Ad valorem equivalent of tariffs (specific rates and falling prices)

Tariff	year	Calculated according prices of	Tariff value level
Dallas Tariff	1816	1816	20-25
Tariff of Abominations	1828	1830	61,7
Morrill trafiff (civil war)	1868	1868	48,7
McKinly tariff	1890	1891	48,4
Wilson trariff	1894	1895	41,3
Dingley tariff	1897	1898	46,5
Payne-Aldrich tariff	1909	1910	40,8
Underwood tariff	1913	1914	27,0
Fordney-McCumber tariff	1922	1923	38,5
		1930	44,6
Smoot-Hawley tariff	1930	1931	44,9
		1932	59,1

- In 1932, world **industrial production** fell to 64% in 1929(USA: 29-33 GNP - 30%, investment -90%, average production -50%, agri prices -60%, unemployment 1933 25.2%, deflation 20%);
- from 1929 to 1932, **nominal international trade fell** by a two thirds third (from USD 3 billion to USD 992 million) (US exports 1929-1933 from 5.24 billion to 1.61 billion); still in 1938, trade between developed countries is lower than 1913;
- **autarchy**, maximizing exports and minimizing imports (including devaluations).
- The first international solution **Imperial system** of preferences - Ottawa 1932, **FTA** within the Commonwealth + reaction to the disintegration of WE;
- American **isolationism**
 - USA 1934 - **Prohibition** of **loans** to governments that have not repaid war debts (all);
 - The negative **consequences** -> therefore the 1934 **Reciprocal Trade Agreement Act** - allow the US government to **negotiate** tariff reductions with other countries at the **bilateral** level (an ideological breakthrough?).

Developments after 1945

- The **political context** of the **post-war order** already during WW2 - **reflection** of the **interwar** situation...
- The **US** wants the **abolition** of **Imperial preferences**, the **UK** wants a **revision** of **US** protectionism;
- **Geneva** - goal: **liberalization** + prevention of **discrimination** (ITO);
- **Keynesianism**, nationalization, important **role of the state**: low **unemployment** (and low inflation), rapid **growth** (US-WE-JAP);
- **Europe** - most damage **repaired** by 1953:
- **USA** after 1945 - **hegemon**:
 - 60% of **industrial** production in the West;
 - a belief in **responsibility** for the running of the world economy;
 - **lessons** from **interwar** developments and the threat of **communism**;
- **Marshall Plan** approved by Congress in April **1948** - ran until 1952 (\$ 13 billion - annually 1% of US GDP; about **2%** of recipient GDP); for **OEEC** distribution, then **OECD**;
- **Cold War** - political reasons for a liberal economic regime; Economic liberalism and democracy (?).



Roosevelt and Churchill during their secret meeting of 9–12 August 1941, in [Newfoundland](#) resulted in the [Atlantic Charter](#), which the U.S. and Britain officially announced two days later.

The period of strong international regimes (1951 - 1973)

- GDP **growth** of 5.1% per year (4.5% per capita);
- Growth of **industrial** production by 6% per year (between 1951-1973 as well as 1800-1953);
- **Causes** of dynamics:
 - rapid **recovery** + available new **technologies**, consumer **goods** - mass demand;
 - structural shift to the **secondary** and tertiary economic sectors;
 - international **trade**;
- **German and Japanese miracle: convergence** (+ 10% Japan; Germany and Italy about 6%; France 5% vs. USA 3.5% and GB 2.8%);
- The growth of **international trade** 1948-1973:
 - in 1960 export from 53 billion USD to 112 billion USD - growing by 6% p.a.;
 - between 1960 and 1973, growing by 8% - faster than growth of product - ie. **integration** of the **world economy**...

Formation of the international trade regime

- **June 26, 1945, the UN was formed:**
 - **UN Development Program (UNDP - DCs Development Activities);**
 - **UN Conference on Trade and Development (UNCTAD);**
 - **International Labor Organization (ILO - labor standards);**
- **12/1945 The US urged its allies to open negotiations for a multilateral agreement on reciprocal tariff reductions on goods;**
- Perceived **two pillars** of the international system:
- **IMF and WB (Brettonwood system);**
- the third pillar for **trade and employment** is missing...
- **1946-1948: effort to create ITO...**The US, the UN and ECOSOC adopted a resolution convening a **conference** on the **draft ITO Charter;**
- Within the **ECOSOC (UN) ITO Preparatory Committee:**
 - **London (1946)** - proposal to **start mutual negotiations** on the removal of barriers ...
 - **Geneva (1947)** - work on **GATT...Havana - Conference (1947-1948)**

A committee of the **United Nations** Conference on Trade and Employment meets in **Havana's** El Capitolio in 1948.



The Conference drew up the **Charter** for the proposed **International Trade Organization** (ITO).

GATT 1947

- A **Preparatory Committee** was established in February 1946; met in **London** in October 1946 to work on the charter of an international organization for trade; work finished in November 1947;
 - **eight parties**: US, UK, Canada, Australia, France, Belgium, the Netherlands, and Luxembourg.
- 1948 – **Havana Final Meeting** of the United Nations Conference on Trade and Employment
 - **Final Act** 24.3.1948; draft **ITO Charter** – signed by 56 countries;
- **GATT 1947 provisional solution**:
 - **First Round** (Geneva) of the GATT Parties;
 - **protocol** of provisional **application** - 30.10.1947 (entry into force 1.1.1948);
 - **23 Contracting Parties: Agreement** + Chapter V of the Charter: "General Agreement on Tariffs and Trade,, (goods);
 - Basic **principles**: most-favored-nation clause (**MFN**) and national treatment (**NT**);
- **8 rounds** of multilateral trade negotiations follow...
- 3/1948 in Havana, negotiations on the **ITO ended**:
 - the charter was **unsuccessfully** submitted to the **US Congress**.
 - 12/1950 **Truman gave up**...

Clash of the GATT Negotiators



UN.6607.

ITO TALKS AT GENEVA

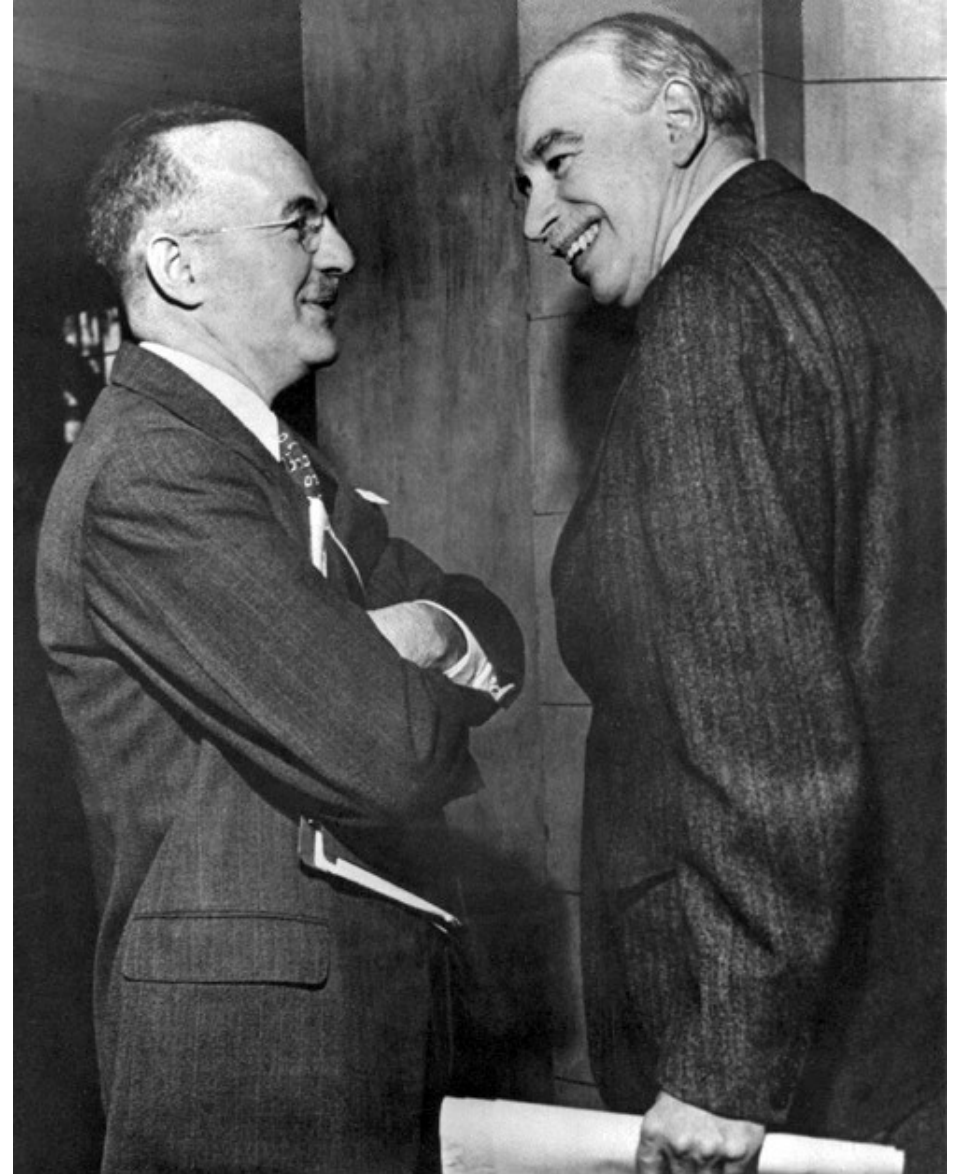
William B. CLAYTON, United States Under-Secretary of State for Economic Affairs, second from left, and Sir STAFFORD CRIPPS, U.K. President of the Board of Trade, right, attending the meeting of the Preparatory Commission of the International Conference on Trade and Employment (ITO), at Geneva. Geneva, July 1947.

Roy Santana



Mount Washington Hotel in Bretton Woods, New Hampshire

Assistant Secretary, U.S. Treasury, Harry Dexter White (left) and John Maynard Keynes, honorary advisor to the U.K. Treasury



- The **Charter**, proposed by **J.M.Keynes**, was to establish the **ITO** and a financial institution called the **International Clearing Union (ICU)**, and an international **currency**; the **bancor**:
 - The Havana Charter institutions were to **stabilize trade** by encouraging nations to "**net zero**", with trade surplus and trade deficit both discouraged. allowing nations **overdraft** equal to half the average value of the country's trade over the preceding five years, with **interest** charged on both surplus and deficit.
 - **US Congress**, never approved. The most usual **argument** against the new organization was that it would be **involved into internal economic issues**. Because of the American rejection of the Charter, **no other state** ratified the treaty.
 - other **priorities**: NATO and the OECD (with the Marshall Plan); spread of communism in Eastern Europe; Korean War.
- **US Congress was not even** in favour of the **GATT**:
 - government **negotiated** alone **under** the America's **reciprocal trade agreements** act, passed in **1934**, the beginning of the **Trade Promotion Authority (Fast Track)**, according to which **Congress** can only **adopt or reject** as a whole trade agreements negotiated by the government without being able to amend them;
 - **32 bilateral trade agreements** from 1934 to 1945; included the **Most Favoured Nation (MFN)** -> **because** third countries **benefited** from this clause **without** having to make trade **concessions** to the **US** that it understood the need for a **multilateral agreement**;
 - **Congress** only **accepted** a global vote on the **GATT** in 1947 because it **did not interfere** with **US laws**, particularly **labour** and **competition** laws, because it **allowed agriculture** (and not only agriculture) to continue to be **protected** and **subsidized**, and because **GATT membership** had to be **renewed** every three years.



The **Palace of Nations**, Geneva, Switzerland. It was built between 1929 and 1938 to serve as the headquarters of the **League of Nations**. It has served as the home of the United Nations Office at Geneva since 1946 when the Secretary-General of the United Nations signed a Headquarters Agreement with the Swiss authorities, although Switzerland did not become a member of the United Nations until 2002.

Negotiations for the "Kennedy round" of the General Agreement on Tariffs and Trade in Geneva, 1967



Kennedy: Trade Expansion Act, which gave the president authority to decrease duties up to 50% from their 1962 levels or increase them up to 50% from their 1934 levels.

Kennedy Round: Gatt Conference in Geneva – economists around a table in a meeting room in the Palais des Nations



Centre William Rappard, Geneva



Built between in 1926 to house the **International Labour Office** (ILO); in 1975 the ILO moved to Grand Saconnex and in 1977 the Centre William Rappard was occupied by the secretariat of the **General Agreement on Tariffs and Trade** (GATT), the *UN High Commissioner for Refugees*, and the library of the *Graduate Institute of International and Development Studies*.

- **Kenedy round 1963-67** (62 participants) (+ Johnson: Trade Expansion Act 1962):
 - Reacting to the creation of the EEC ;
 - linear method - initially an effort of -50% cut; finally -35%; AGRI affected minimally;
 - developing countries without the requirement of reciprocity;
 - agreed concessions worth 40 billion USD; duties on MANU products down to 10%; anti-dumping code adopted (other NTBs remain);

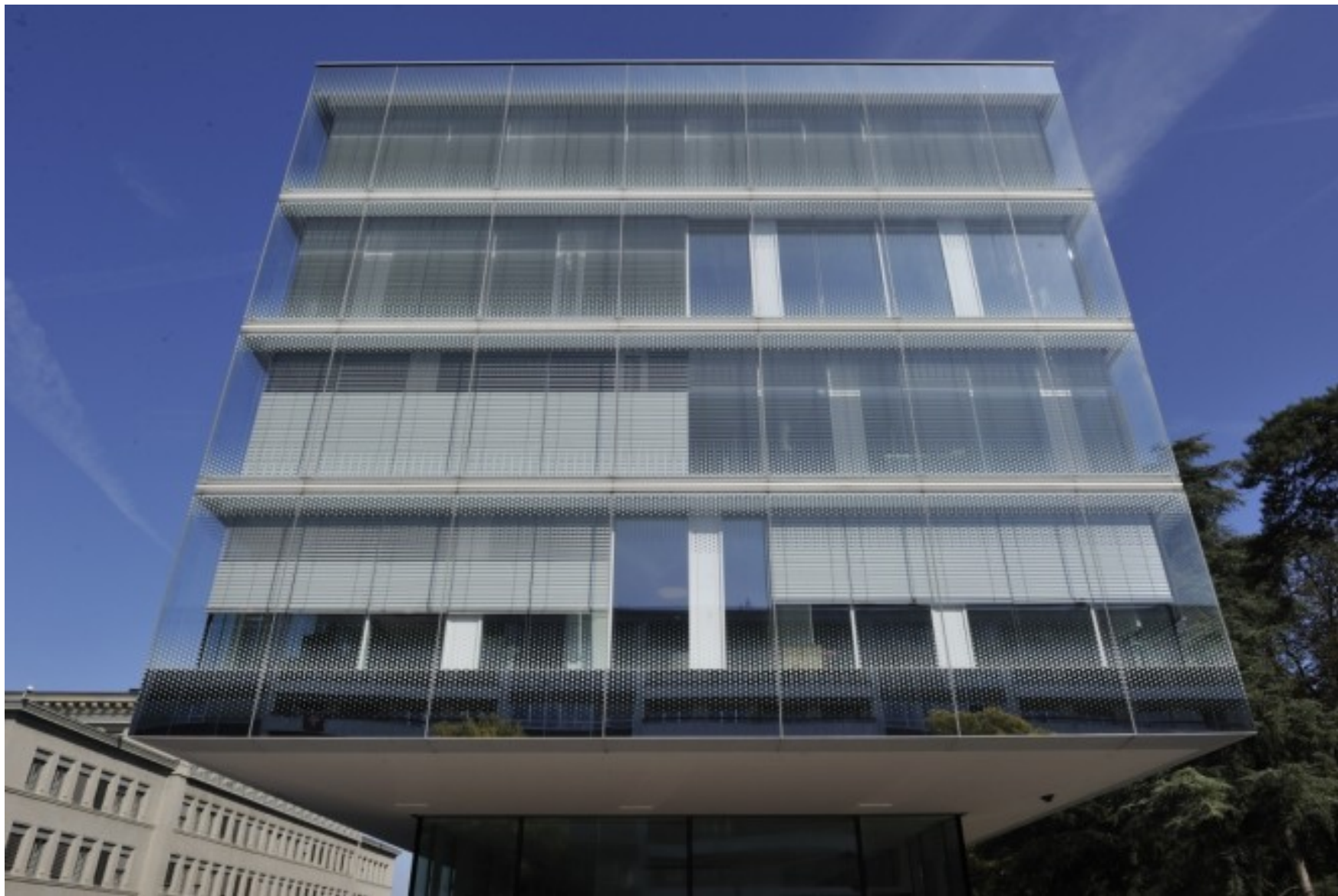
- **Tokyo 1973-79** (102 participants) (Nixon + Ford + Carter: New Economic Order, 1974 Trade Act)
 - harmonization method (higher duties were reduced more);
 - concession worth 125 billion USD;
 - duties on MANU goods reduced by 33% to (on average) 5%;
 - progress on NTBs and agriculture very modest;

- **Uruguay 1986-94** (123 participants) (Reagan + Bush):
 - EU and Canada initiators;
 - WTO (GATS, TRIPS) adoption of multilateral agreements by all members (single commitment principle);
 - Ministerial Conferences: 1996 Singapore; 1998 Geneva; 1999 Seattle; 2001 Doha; 2003 Cancun; 2005 Hong Kong; 2009 and 2011 Geneva; 2015 Nairobi; 2017 Buenos Aires...



U.S. Trade Representative Mickey Kantor signs the final measure of the GATT Uruguay Round at Marrakesh.





2013, annex designed by German architect Jens Wittfoht, ambitious in modesty, using the transparency (of glass) as a principle...



Shi Guangshen, Minister of Foreign Trade and Economic Cooperation of China, signing **China's Protocol** on the **Accession** to the WTO at the 4th Ministerial Conference in Doha in November 2001.

1947	Negotiations on tariff reductions between the 23 founding parties of GATT have been concluded.
1948	GATT provisionally enters into force on 1.1.1948. Delegations from 53 countries sign the Havana Charter establishing the ITO in March 1948.
1949	Annecy - Round of multilateral trade negotiations.
1950	China withdraws from GATT. The US administration is refraining from trying to ratify the ITO by Congress.
1951	Torquay - Round of multilateral trade negotiations. Germany is approaching.
1955	The Review Meeting modifies a number of GATT provisions. Efforts to transform GATT into formal IO (OTC) have failed. The US is getting an exemption from the rules for certain agricultural products. Japan is approaching.
1956	Geneva - Round of multilateral trade negotiations.
1957	Establishment of the EEC .
1960	A General Council is established to manage the day-to-day agenda. Dillon's round started.

1961	Dillon's round completed. A "short-term agreement" allowing a quota restriction on trade in cotton textiles has been agreed as an exception to the GATT rules.
1962	The "Short-Term Agreement" is renamed the "Long-Term Agreement" on cotton textiles.
1964	Kennedy round started.
1965	Part IV (trade and development) is added to GATT - the new guidelines for trade policy towards developing countries. A Trade and Development Committee is hereby established.
1967	Closing the Kennedy round.
1973	Tokyo Round started.
1974	The Multifibre Agreement on International Textile Trade (MFA) enters into force, replacing the Long-Term Agreement. It limits the increase in exports to 6% per year, negotiated in 1977 and 1982, extended in 1986, 1991 and 1992.
1979	The Tokyo Round is over. It contains implementation rules for various areas that countries can sign on a voluntary basis. Typically OECD countries.
1982	The ministerial meeting fails to try to agree on an agenda for a new round.