

POST-WAR GLOBAL TRADE REGULATION

The General Agreement on Tariffs and Trade (GATT) started out in 1947 as a set of rules to ensure nondiscrimination, transparent procedures, the settlement of disputes, and the participation of the lesser-developed countries in international trade. To increase trade, GATT used tariff concessions, through which member countries agreed to limit the level of tariffs they would impose on imports from other GATT members. An important tool is the most-favored nation (MFN) clause, recently renamed as “normal trade relation.” It called for member countries to grant each other the same treatment accorded any other nation with respect to imports and exports. MFN is, in effect, an equal-opportunity clause.

In time, GATT became the governing set of regulations for settling international trade disputes. It evolved into an institution that sponsored various successful rounds of international trade negotiations with an initial focus on the reduction of high tariffs that restricted cross-border trade. Headquartered in Geneva, Switzerland, the GATT Secretariat conducted its work as instructed by the representatives of its member nations. Even though the GATT had no independent enforcement mechanism and relied entirely on moral suasion and on frequently wavering membership adherence to its rules, it achieved major progress for world trade.

Early in its history, the GATT accomplished the reduction of duties for trade in 50,000 products, amounting to two-thirds of the value of the trade among its participants. In subsequent years, special GATT negotiations, such as the Kennedy Round, named after John F. Kennedy, and the Tokyo Round further reduced trade barriers and improved dispute-settlement mechanisms. The GATT also developed better provisions for dealing with subsidies and more explicit definitions of roles for import controls.

In early 1995, the GATT was supplanted by a new institution, the World Trade Organization (WTO), which now administers international trade and investment accords. Through the General Agreement on Trade in Services (GATS), an entire new set of rules was designed to govern the service area. Agreement also was reached on new rules to encourage international investment flows.

In 2001, a new round of international trade negotiations was initiated. Since the agreement to embark on a new round was reached in the city of Doha (Qatar), the negotiations are known as the Doha Round. The aim was to further hasten implementation of liberalization to help developing and impoverished nations in particular. Another goal was to expand the role of the WTO to encompass more trade activities where rules were deemed insufficient, due either to purposeful exclusion by governments in earlier negotiations or to new technology changing the global marketplace. Regulations covering trade in agricultural goods, antidumping, and electronic commerce are all examples. In the agricultural sector, for instance, there is a proposal to reduce average global tariffs on farm products from 62 percent to 15 percent and to remove \$100 billion in global trade-distorting subsidies. Cutting barriers to trade by a third could boost the world economy by \$613 billion, which is like adding an economy the size of Canada.

The beginning of the Doha negotiations was quite slow, since U.S. negotiators did not have fast track authority, whereby Congress could either approve or disapprove proposed trade agreements

but not amend or change them. However, in the summer of 2002, such authority was granted to the President, and prospects for the Doha Round improved rapidly. A conclusion to the Round is expected by 2006.

Czinkota, Michael R., Ilkka A. Ronkainen and Michael H. Moffett. Fundamentals of International Business. Mason: South-Western, 2004.