Challenges for GATT

What is the issue?

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- General Agreement on Tariffs and Trade (GATT) marked its 70th anniversary.
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- It is facing from challenges from the present US administration.
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What is GATT?

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- General Agreement on Tariffs and Trade (GATT) was a legal multilateral agreement between many countries.
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- Its overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas.
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- Its preamble, states that the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."
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- GATT was signed by 23 nations in Geneva on October 30, 1947, and took effect on January 1, 1948.
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- The average tariff levels for the major GATT participants were about 22% in 1947, but were 5% after the Uruguay Round in 1999.
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- It remained in effect until the signature by 123 nations in Marrakesh on April 14, 1994, of the Uruguay Round Agreements, which established the World Trade Organization (WTO) on January 1, 1995.
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- The WTO is in some ways a successor to GATT, and the original GATT text (GATT 1947) is still in effect under the WTO framework, subject to the

modifications of GATT 1994.
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What are the instances involved in birth of WTO?

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- It was the U.S., since the midst of World War II, championed international cooperation as the only means to counter the rampant restrictive trade practices of the inter-war period.
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- In 1930 US had legislated the notorious Smoot-Hawley Tariff Act.
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- An ostensible move to protect agricultural products, the law raised import duties on some 900 goods, averaging about a 50% hike.
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- To counteract its effects, Canada diverted exports away from its immediate neighbour and largest trading nation, to cash in on the imperial preferences under the British dominion.
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- The retaliation to Smoot-Hawley was no less severe from Europe and Japan.
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- Given the reciprocal nature of commitments agreed among countries, the U.S. was forced to withdraw many of its proposed duty cuts at the 1947 Geneva conference.
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- The US administration was cautious not to walk away from the GATT negotiations in the larger interest of cementing the Western alliance at the beginning of the Cold War.
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- The final Uruguay Round of GATT heralded its successor, the WTO, whose scope extends well beyond tariff reductions to trade in services and much else.
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What are the challenges faced by GATT?

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- There has been a rapid proliferation of bilateral and regional free-trade agreements around the world, raising concerns over trade diversion rather

than generation.
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- The erosion of the larger commitment to the post-war global liberal order has never been more pronounced than under the current US administration.
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- As a result this regression, there are populist tide against the opening of the U.S. market under the North American Free-Trade Agreement (NAFTA), portraying trade liberalisation as a zero-sum game.
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- Similarly, the rhetoric on the surge in Chinese imports since Beijing's 2001 accession to the WTO seeks to play down the benefits of cheaper consumer goods and the opportunities in outsourcing and exports.
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- Earlier this year, Washington quit the Trans-Pacific Partnership trading bloc, and continues to threaten taxes on overseas operations of domestic industries and astronomical import tariffs.
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- But as long as the rhetoric does not move into the realm of real action, there is still hope that the damage could be undone.
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Source: The Hindu

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