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GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) IN MODERN INTERNATIONAL ECONOMIC MANAGEMENT: HISTORICAL EXAMINATION

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ABSTRACT

International Trade Management attracted world attention in the early 1930s. The World had experienced an erosive and other problematic extensive pattern of trade barriers in the 1930s and during the World War II, that did not allow for growth and development of World trade. Western European Nations and America under American leadership thought of implementation of a system of free trade. In this connection, the International Conference on Trade and Employment was held in Havana in 1947, this first attempt at organising a body to conduct international trade. Havana Conference gave birth to International Trade Organisation (ITO) that was never ratified. Simultaneously, twenty-three nations agreed to continue extensive tariff negotiation at Geneva which were incorporated in General Agreement on Tariffs and Trade. This paper examines some efforts made in the establishment of organisation for the conduct of international trade to reduce friction especially as it affects developing nations. The objectives of the organisation, achievements, weaknesses and demise are also examined. GATT had existed, conducted and regulated international trade until the new structural changes in the world economy shocked it and gave way to World Trade Organisation (WTO). GATT, structurally returned to history.

GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) IN MODERN INTERNATIONAL ECONOMIC MANAGEMENT HISTORY EXAMINATION

INTRODUCTION

Trade is one of the most important activities in international economic relations. It is strongly anchored on disparity of production which creates the need for export and import to balance for the needs of nations. From creation to organised human history, trade has been and would remain a veritable link between and among economic interests of nations. Like any other business International trade, therefore, cannot be conducted without friction. There used to be and still conflict between the domestic politics and international trade. Before the 1930s there was no proper legal code or order regulating international trade. Thus the international markets were opened to every nation willing to do business. In this connection, this free entry and exit among the competing nations did not allow for good exchange relations and conflicts continued to be constrain for the free flow of international trade. What constituted the conflicts were trade barriers in the form of tariffs, restrictions, preferences etc. The international market remained so until 1934 when United States, Britain began to press for the implementation of a system of free trade perhaps to cushion the effect of economic depression of the 1930s.

However, it would appear that conflicts and other economic problems led to the creation of international economic institutions to facilitate cooperation, compromise, order in the conduct of international business for the benefit of all nations. Some of these institutions are the World Bank, the International Monetary Fund (IMF), the United Nations Development Programme, and the defunct General Agreement on Tariffs and Trade (GATT) which is the central theme of this article.[2]

Indeed, American and British press for free trade led to the Havana Charter which became the first attempt to build an order for international trade. American efforts at creating an open system dated from the Reciprocal Trade Agreement Act of 1934, which was a product of Cordell Hull's Liberal Vission.[3]
According to Hull,

> *Unhampered trade dovetailed wit peace;high tariffs, trade barriers, and unfair economic competition, with war ... if we could get a free flow of trade - free in the sense of fewer discriminations and obstructions - so that one country would not be deadly ealous of another and the living standards of all countries might rise, thereby eliminating the economic dissatisfaction hat breeds war, we might have a reasonable chance of lasting peace.*[4]

It would appear that Hull's idea stemmed from the fact that many nations were still feeling the effect of the First World War coupled with the depression of the 1930s. Trade barriers contributed to their being slow to recovery from the traumatic effect and reintegrated into the world economic system of the time.

However, in 1945, the United States came out with a multi-lateral commercial convention plan which would regulate and reduce restrictions on international trade the convention carried rules for all aspects of international trade. The convention carried rules for all aspects of international trade - tariffs, subsidies, state trading, preferences, quantitative restrictions, international commodity agreements. The convention also provided for an International Trade Organisation (ITO), in the area of trade, to oversee the system. In 1946 the United States called for an international conference to discuss this American proposal and to implement a new trading order.[4b]

Agreement on a new international order for trade was not achieved. The US was a clear leader in the negotiation process, but the problem was that each participant faced important domestic political constraints, hence US was unable to impose its plan on others. For instance, Britain argued and insisted on provision for its Imperial Preference system; other Europeans insisted on safeguards for balance - of payment problems; the underdeveloped countries demanded for inclusion, provisions for economic development. The result suffered from long, delayed international negotiation. The discussion began in 1943 and final negotiation terminated in 1947 without success. The agreement embodied the wishes of everyone, but in the end satisfied no one.[5]

Indeed, the leader of the agreement, the US faced a stiff domestic political constraints. In 1950 she withdrew and International Trading Organisation (ITO) died, and so did many rules of the Havana Charter. But the consensus agreed on the establishment of an international trading order survived, embodied in GATT which had been drawn up in Geneva in 1947; it was to provide a procedural base and to establish guiding principles for the tariff negotiations. It was also intended to be a temporary treaty to serve until the Havana Charter was implemented. But because that charter was never ratified, GATT, by default, became the expression of the international consensus on trade.[6]

The primary aim of this article is to identify the role of GATT in the conduct and regulation of International Trade now that it has been replaced by another body known as World Trade Organisation. This would then be used to regulate and advice the new body where there were lapses in the conduct of international trade by GATT. In doing this, the study will rely on information available in the literature on International Trade and International Economic relations without any empirical study.

EVOLUTION OF GATT.

The General Agreement on Tariffs and Trade (GATT) emerged from the debris of the Havana Charter. As earlier mentioned, the world had experienced complexities in the World trade caused by the trade barriers of the 1930s and the heat of the second world war. Thus the Allied powers mainly United States and Britain thought of having a liberal World trading system after the second world war. In 1947 an International Conference on Trade and Employment was held in Havana. Fifty - three nations attended, drew up and signed a charter which resulted in the emergence of International Trade Organisation (ITO). ITO died at the embryonic stage because the United States did not ratify the charter. Soon after that, twenty-three nations including Britain, France agreed and met at Geneva to press on for tariff negotiations for trade concessions which were incorporated in General Agreement on Tariffs and Trade. This was signed on 30 October 1947 and came into force from 1 January 1948. Other nations that were not part of the twenty- three nations later signed the agreement. It was this agreement that gave GATT its value and acceptability and had remained so until 1 January 1995 when it passed into history with the emergence of World Trade Organisatio.[7]

WHAT REALLY WAS GATT

According to Jhingan, the GATT was a multi-lateral treaty which had been signed by ninety-six governments known as "contracting parties". Later thirty-one other countries had applied GATT rules de facto. He further explained that, the GATT was neither an organisation nor a court of justice, it was simply a multinational treaty which covered 80 percent of the world trade.

Indeed it was a decision making body with a code of rules for the conduct of international trade, besides a mechanism and an engine for trade liberalisation. GATT was a forum where the contracting parties met from time to time to discuss, solve, negotiate their problems and enlarge their trade. GATT as international organisation, had a secretariat and director general to oversee the implementation of GATT rules and to carry out preparatory work for international trade conferences. The GATT rules provided for the settlement of trade disputes, called for consultations, waived trade obligations, and even authorised retaliatory measures. The GATT was a permanent international organisation having a permanent council of representatives with headquarters at Geneva.[8]

Onunka *et al* (1989) in their book, Economics for Schools, Sees GATT as one of the main economic institutions which has the main objective of making international trade and payments system easy.[9]

GATT was one of the tripartite institutions to provide international liquidity and adjustment payments mechanism, capital for development and to promote multilateral trade liberalisation. Other two institutions being IMF and IBRD. GAFF was a body of Trade rules without legal person with proper structure.[10]

PARTICIPATING NATIONS AGREED OBJECTIVES OF GATT

GATT'S main objectives were:

1. "As a means of expanding multilateral trade with minimum barriers to international commerce, reduction on tariffs, quotas, and the abolition of preferential treatments.
2. Mean of establishing liberal world trading system, enhance or raise living standards, ensure full employment through a steady but growing effective demand and real income.
3. Expansion and development of world resources, expand the production and exchange of goods on a global level.
4. To follow unconditionally the principle of most favoured nation (MFN). The most favoured nation clause clearly stated that every concession agreed between any group of countries must be extended to all members of GATT. For instance if Nigeria agrees to make tariff or quota concession to Malaysia on importation of computer, for example, in return for Malaysia's concession for importation of cocoa, the reductions which both countries have allowed themselves must be extended to all other countries which are members of GATT.
5. To carry on trade on the principle of non-discrimination, reci-

procity and transparency.

6. To liberalise tariff and non-tariff measures through multilateral negotiations.
7. To grant protection to domestic industry through tariffs only. In a nutshell, to achieve the above objectives, the Agreement (GATT) provided for:

a. Multilateral trade negotiations;
b. Consultation, conciliation and settlement of disputes; and
c. Waivers to be granted in exceptional cases.11

PROVISIONS OF GATT

GATT for the good conduct of the international trade business had the underlisted principles.

1. Most Favoured Nation Clause (MFN) to all signatories. The principle of MFN implied that tariff preferences accorded by a country to another are extended to all others with which it has trade relations. It also forbade the contracting parties from granting any new preferences. This was to ensure non-discrimination, multilateralism.
2. GATT emphasised reciprocity and mutual advantageous arrangements among contracting parties.
3. Expansion of trade through the reduction of trade barriers.
4. GATT also provided emergency safeguard code. Safeguard code made it that a country could impose a tariff or quota to restrain imports which "caused or threaten serious injury" to domestic producers.[12]

Primarily, there were important exceptions to these principles, for example, the British Commonwealth was given and recognised the common markets or free trade area agreements of members. Besides, the exemptions recognised special economic relationships or countries were encouraged to risk moving even more toward completely free trade.

However, Eastern bloc led by the defunct Union of Soviet Socialist Republic and some less developed counties never signed the GATT nor accepted GATT principles. Again some countries in the Organisation for Economic Co-operation and Development (OECD) did not completely fulfil their GATT obligation, the basic principle of the GATT provided the basis for the post war liberalization of World trade.[13]

According to Ruggie, he contended that countries could accept the obligations of the GATT and join in the tariff - reduction negotiations without jeopardizing their domestic economic objectives under what he termed "compromise of embedded liberalism". The goal was non-discrimination and multilateralism instead of complete abandonment of national controls over trade barriers.[14]

GATT "ROUNDS" OF GLOBAL TRADE NEGOTIATIONS AND CHALLENGES

The GATT entered into force in 1947, and since then, seven "rounds" (Conferences) of global trade negotiations under it have taken place, and the eight, the Punta Del Este (Uruguay) began in September 1986 and concluded on 15 April 1994. It was the Uruguay Round of GATT that gave birth to World Trade Organisation (WTO) the successor of GATT.

"The first conference on trade negotiations was held at Geneva in 1947, the second at Annecy (France) in 1949, the third at Torquay (England) in 1950-51, the fourth at Geneva (Switzerland) in 1955 - 56, the fifth at Geneva between 1954-62 (Dillon Round), the sixth at Geneva between 1963-67 (Kennedy Round), and seventh at Tokyo (Japan), between 1973-79. These conferences have led to reduction or destabilisation of more than 60,000 tariff rates, and to a number of non tariff agreements among contracting parties having 80 percent of the World trade".[15]

This paper however, would be discussing the Tokyo Round because it has a lot of bearing with complexities in trade system between the developed and the developing nations. Besides for analyses sake much light would be thrown on how developed nations would not see less developing nations grow.

The Tokyo Round

Tokyo Round is the seven in the series of conferences of GATT on Multilateral Trade Negotiations (MTN). The Conference was launched in September 1973. Its main objectives were clearly laid in what is sometimes referred to as Tokyo declaration, which six areas were to be negotiated for. These were tariff reductions; reduction or elimination of non-tariff barriers;
co-ordinated reduction of all trade barriers in selected sectors, discussions on the multilateral safeguard system; trade liberalism in the agricultural sector with emphasis on the problems associated with the sector; special treatment of tropical products. The Tokyo Round also emphasised that the Multilateral Trade Negotiations (MTN) must take into account the special interests and problems of developing countries.[16]

"On 12 April 1979 when the Round ended, a number of agreements on specific non-tariff measures and agricultural products were reached which came into force on 1 January, 1990.

1. The Agreement on subsidies and Countervailing Duties. This covered industrial, agricultural, fisheries, and forestry products, and procedure for the settlement of disputes between contracting parties.
2. The Agreement on Customs Valuation. The agreement provided for a fair, uniform and natural system for the valuation of goods for customs purposes.
3. The Agreement on Government Procurement: It aimed at securing a greater international competition an avenue for more effective use of tax revenues and other public funds through the application of commercial consideration when governments purchase for their own use. It also stipulated the principles of non-discrimination and national treatment.
4. The agreement on Technical Barriers to Trade. It aimed at providing for removing unnecessary barriers to trade existing in the form of technical standards and specifying rules of a legally binding character between governments to complain and obtain redress in the course of vio-

lations of the code of Technical standards by the signatories

5. The Agreement on Import Licensing Procedures.
   It is related to autonomic grant of approval of application on the inflow of goods, non-automatic import licensing in the case of quotas and other types of import restrictions and institutions and procedures for consultation and settlement of disputes.
6. The Agreement on Dairy Products.
   On this aspect, it was initially for three years beginning from January 1980 with provision for an extension for another three years. It also provided for the setting up of International Dairy Products Council which was expected to meet twice a year. The agreement was also aimed at developing countries, and three protocols regarding skimmed, whole, and butter milk powders, anhydrous milk fat, and cheese.
7. The Agreement on Bovine Meat.
   It covered beef, veal and cattle. Like agreement on Dairy products was to cover three years and another three years extensions. It provided for the establishment of International Meat Council which would meet twice a year.
8. The Agreement on Trade in Civil Aircraft.
   It included al civil aircraft, their engines, parts and components. It provided for elimination of all custom duties and similar charges on the importation of above-mentioned items and repairs on civil aircrafts. It established a committee on Trade in Civil Aircraft which was to meet once a year".[17]

It is observed that Tokyo Round had extended outside the scope to include non-tariff matters. All the same, the legal position in each of these agreements was specifically devised to meet the objectives set by the United States, European Economic Community, and other developed countries. Some provisions were, however, incorporated to cater for those developing countries, which wished scribe to them.

GENERAL ASSESSMENT OF GATT PERFORMANCE

GATT performance especially after the second world war indicated that there had been a decline of tariff barriers and growth in World trade. According to Cline (1983) whose view based on the advanced nations economy he contended that the removal of tariff barriers, the merchandise trade of industrial countries grew from 1950 through 1975 at an average rate of 8 percent a year, double the growth rate of their gross national product (4 percent). In this connection, the International trade network showed a level of economic interdependence and integrated world economy was emerging. It also showed that the balance between the forces of liberalisation and economic nationalism began to shift; though by 1970 trade liberalisation and the growth of trade slowed.[18]

Under GATT Trade and development was incorporated into the General Agreement dealing with the principle of non-reciprocity for developing countries.

In 1964 - 1967 Kennedy Round some benefits on developing countries were bestowed when thirty-seven developing countries reduced tariffs on manufactured goods. In 1970, the Generalised System of Preferences (GSP) was introduced which allowed developed countries to grant unilateral tariff preferences to developing countries. Indeed, it was The Tokyo Round that a number of agreements on subsidies and countervailing duties covering agricultural, fisheries and forestry products; on customs valuations; on government procurement; to technical barriers to trade; on import licensing, on dairy products; on bovine meat; and on civil aircraft were reached. It was a high point for developing nations for these agreements contained special provisions for developing nations. It led to trade concessions to the exports of raw, processed, and semi processed tropical products of developing countries by developed countries.[19]

By the 1980s, it was observed that the GATT regime and liberal world trade were on the defensive. The World was moving away from comprehensive free trade although the value of world trade continued to expand into 1980s. It was on the defensive because of the spread of protectionism and its attendant effect on the nature of the trading system and the international locus of industrial production.[20]

GATT in its 47 years of existence has assisted in making tariff reductions covering approximately 40 billion or four-fifths of the World trade. Specific number of agreements on specific non-tariff measures and on agricultural products were reached which came into effect in 1980. GATT also settled various disputes and regulated the conduct of international trade to favour not only the developed countries but the developing ones.

Indeed, at Uruguay Round was the General Agreement on Trade in services which is the first set of multilaterally agreed, and legally enforceable rules and disciplines relating to international trade in services. Services include financial, telecommunications and services of natural persons. The GATTS required non discrimination by governments on the basis of Most Favoured Nation (MFN) clause and transparency in the form of publication of all relevant laws and regulations relating to services trade.[21]

The Uruguay Conference also dealt with the Agreement on Trade Related Intellectual Property Rights. It provided norms and standards for copyrights and related rights trademarks, geographical indications, industrial designs, patents, layout designs of integrated circuits, trade secrets and protection of undisclosed information. The Agreement allowed for certain years of countries to change their laws.

Developed countries was allowed one year, five years for developing countries and eleven years for least developed countries for the implementation of Trade Related Intellectual Property Rights.[22]

GATT had made some progress in certain areas, there had been certain aspects of International trade which there was not adequate provisions, for example trade in agricultural products, commodity price instability, state trading, intra-corporate trade, restrictive business practices, trade-related investment policies and increasingly, non-tariff measures affecting trade.

However, in the 1970s many fundamental developments gave way to the revival of economic protectionism and subsequent slowing of the growth of trade. The developments were the shift to floating exchange rates and the corrosive and erratic behaviour of the rates; the Organisation of Petroleum Exporting Countries (OPEC) and the unilateral increase in the price of World energy; the intensification and intrusion of Japanese Competition; the appearance of the newly industrialising countries (NICS) into the World Markets, the relative decline of the American economy, the gradual closure of the European Economic Community. These developments signalled the gradual reverse of movement toward trade liberalisation. Thus, in the late 1970s, these changes had eroded the GATT system of trade liberalisation, this was so, since the tariff barriers within the GATT fallen, non-tariff barriers in most countries rose.[23]
And so trade conflict among nations intensified.

As earlier discussed, the trading arrangements put in place in the late 1940s in the GATT had various gaps; They failed to deal positively with agricultural trade, for which substantial exceptions to the rules were provided, reflecting and explicit subordination of international obligations to national policies. Producers of agricultural products have been resorting to domestic support policies leading to surplus production that can be exported only with the help of heavy subsidies. For example, European Countries have been exporting subsidised wheat, while the United State has placed import restrictions on dairy products.[24]

In 1982 Commonwealth Report on protectionism showed that International trade was no longer governed by the principles and rules originally formulated by the negotiators of GATT. It was agreed that developed nations had removed the majority of tariff barriers, others were not abolished. They devised new trade restrictions under the aegis of "voluntary export restraints", "low-cost suppliers", "market disruption" etc. Which were outside the GATT rules. They had applied against developing and state trading countries and Japan. In addition, GATT'S role was being undermined by concluding bilateral, discriminatory and restrictive arrangements outside the GATT rules. The European Economic Community and the United States had placed many import restrictions on many products from Brazil , Hong Kong, Korea, and many other developing countries. Before the exit of GATT, over 100 Multifibre Arrangement (MFA) type bilateral agreements were in force in which restricted exports from developing countries to the developed ones.[25]

Even though rules setting up GATT forbade any form of discrimination among members, it was discovered that developed countries that suffer from adverse balance of payments were allowed the use of quotas while developing countries that suffer from adverse balance of payment were not allowed the use of quotas. Again while developing countries wanted to protect their infant industries with some restrictive measures everything was done in the developed countries to open markets for their goods in these developing nations. These general inconsistencies in application of policy decisions tended to restrict agreements of GATT. The effect was that trade liberalisation by GATT members led to the formation of trading blocks such as the European Economic Community (EEC), the European Free Area (EFTA).[26] Some reasons given above have made it possible for most members of GATT, particularly the developing countries to feel that they have more protection in their international trade dealing under the United Nation Conference on Trade and Development (UNCTAD) and so shifted for patronage.

SUMMARY AND CONCLUSION

The GATT was a multilateral treaty which originally was signed by ninety-six governments known as "Contracting Parties". It entered into force in 1948 as the surviving element of a still born, framework for international trade policy, enshrined in the proposed International Trade Organisation (ITO). GATT was not truly an Organisation nor court of justice, it was simply a multilateral treaty which covered eighty percent of the world trade. It was a forum where contracting parties met from time to time to brainstorm and solve their trade problems and also negotiated to enlarge their trade. However, GATT had rules, and those rules provided for the settlement of trade disputes, called for consultation, waived trade obligations and even authorised retaliatory measures. GATT'S main function was to call all international conferences related to trade and decide on trade liberalisation on a multilateral basis.

However, GATT held sway in the conduct of international trade since 1948 until it became weakened in the 1980s owing to structural changes in the World economy. Countries became disenchanted and proffer for a better organisation to be able to manage international trade based on this new structural changes. At the Uruguay Round 15 April 1994 the last to handle GATT issue, 123 ministers of member countries ratified for a change thus disappeared and passed into history and its liabilities absorbed by the World Trade Organisation (WTO) on 1 January 1995.

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4a. Cordell Hull was the US Secretary of State from 1933 to 1944 in Joan Edelman Spero p. 24

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5. *Ibid p. 77 - 78*

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9. M W Onunka *et al Economics for Schools* (Ibadan: Evans Brothers Nigeria Ltd. 1989) p. 257

10. Central Bank of Nigeria Economic and Financial Review p9. 365. The other institutions are International Bank for Reconstruction and Development (IBRD), International Monetary Fund (IMF)

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Marina Whitman "International Trade Investment: Two Perspectives" in Robert Gilpin, The Political Economy of International Relations (Lagos: F & A PUB. LTD. 1987) p. 191

12. Ibid. Jhingan, p. 519. There are other minor provisions not cited here.

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14. Organisation for Economic Co-operation and Development (OECD) Definition - Newly industrialising Countries: This Category is variously defined but include countries at a relatively advance level of economic development with a substantial and dynamic industrial sector and with close links to the international trade, finance and investment system. The OECD Category of newly industrialised countries comprises Argentina, Brazil, Greece, Hong Kong, Korea, Mexico, Portugal, Singapore, Spain, Taiwan, Separatist State of Yugoslavia, Malaysia and Indonesia.

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17. *Ibid*

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19. William Cline is quoted in Gilpin p. 192

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