



GATT

General Agreement
on Tariffs and Trade

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The General Agreement on Tariffs and Trade was a free trade agreement, initially between 23 countries that eliminated tariffs and increased international trade. It was the first worldwide multilateral free trade agreement. It was in effect from January 1, 1948 until January 1, 1995. It ended when it was replaced by the more robust World Trade Organization.

MEMBER COUNTRIES

The original 23 GATT members were **INDIA**; Australia; Belgium; Brazil; Burma, now called Myanmar; Canada; Ceylon, now Sri Lanka; Chile; China; Cuba; Czechoslovakia, now Czech Republic and Slovakia; France; Lebanon; Luxembourg; Netherlands; New Zealand; Norway; Pakistan; Southern Rhodesia, now Zimbabwe; Syria; South Africa; the United Kingdom and the United States. The membership increased to more than 100 countries by 1993.

THREE PROVISIONS

First Provision

- o All members must be treated equally when it comes to tariffs.
- o It is permitted to maintain tariffs if their removal would cause serious injury to domestic producers.

Second Provision

GATT prohibited restriction on the number of imports and exports. The exceptions were:

- When a government had a surplus of agricultural products.
- If a country needed to protect its balance of payments because its foreign exchange reserves were low.
- Emerging market countries that needed to protect fledgling industries.
- In addition, countries could restrict trade for reasons of national security. These included protecting patents, copyrights, and public morals.

The Third Provision

- o The third provision was added in 1965. That was because more developing countries joined GATT, and it wished to promote them. Developed countries agreed to eliminate tariffs on imports of developing countries to boost their economies. It was also in the stronger countries' best interests in the long run. It would increase the number of middle-class consumers throughout the world.

PROS

- o For 47 years, GATT reduced tariffs. This boosted world trade 8 percent a year during the 1950s and 1960s. That was faster than world economic growth. Trade grew from \$332 billion in 1970 to \$3.7 trillion in 1993.
- o It was such a success that many more countries wanted to join. By 1995, there 128 members, generating at least 80 percent of world trade.
- o By increasing trade, GATT promoted world peace. In the 100 years before GATT, the number of wars was 10 times greater than the 50 years after GATT.
- o By showing how free trade works, GATT inspired other trade agreements.
- o GATT also improved communication. It provided incentives for countries to learn English, the language of the world's largest consumer market. This adoption of a common language reduced misunderstanding. It also gave less developed countries a competitive advantage. English gave them insight into the developed country's culture, marketing, and product needs.

CONS

- o Low tariffs destroy some domestic industries, contributing to high unemployment in those sectors. Governments subsidized many industries to make them more competitive on a global scale.
- o By the 1980s, the nature of world trade had changed. GATT did not address the trade of services that allowed them to grow beyond any one country's ability to manage them. For example, financial services became globalized. Foreign direct investment had become more important. As a result, when U.S. investment bank Lehman Brothers collapsed, it threatened the entire global economy. Central banks scrambled to work together for the first time to address the 2008 financial crisis. They were forced to provide the liquidity for frozen credit markets.

- Like other free trade agreements, GATT reduced the rights of a nation to rule its own people. The agreement required them to change domestic laws to gain the trade benefits.
- Trade agreements like GATT often destabilize small, traditional economies. Countries like the United States that subsidize agricultural exports can put local family farmers out of business. Unable to compete with low-cost grains, the farmers migrate to cities looking for work, often in factories set up by multi-national corporations. Often these factories can move to other countries with lower-cost labor, leaving the farmers unemployed.
- Farmers that stay often grow opium, coca, or marijuana, just because they can't grow traditional crops and stay in business. Violence from the drug trade may force them to emigrate to protect themselves and their children.

GATT TRADE ROUNDS

Year	Place / Name	Subjects Covered	Countries
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960 – 1961	Dillon Round	Tariffs	26
1964 – 1967	Kennedy Round	Tariffs and Anti-Dumping Measures	62
1973 – 1979	Tokyo Round	Tariffs, Non-tariff Measures, Framework Agreements	102
1986 – 1994	Uruguay Round	Tariffs, Non-tariff Measures, Rules, Services, Intellectual Property, Dispute Settlement, Textiles, Agriculture, Creation of WTO	123

BASIS FOR COMPARISON	GATT	WTO
Meaning	GATT can be described as a set of rules, multilateral trade agreement, that came into force, to encourage international trade and remove cross-country trade barriers.	WTO is an international organization, that came into existence to oversee and liberalize trade between countries.
Institution	It does not have any institutional existence, but have a small secretariat.	It has permanent institution along with a secretariat.
Application	The rules of GATT are only for trade in goods.	The rules of WTO includes services and aspects of intellectual property along with the goods.
Agreement	Its agreement are originally multilateral, but plurilateral agreement are added to it later.	Its agreements are purely multilateral.
Domestic Legislation	Allowed to continue	Not allowed to continue
Dispute Settlement System	Slow and ineffective	Fast and effective

CONCLUSION

The main purpose of the implementation of GATT was to increase cross-country trade in the world, so as to reinforce economic soundness, after the second world war. It is the foundation of WTO, that made open trade between nations but also maintained some barriers for the benefit of all.