

SOME FEATURES AND TRENDS OF THE WORLD TRADE IN THE GATT ERA

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Abstract:

In the first five decades of postwar era the efforts towards progressive liberalization of international trade and towards the accomplish of a multilateral trade regime were held under the auspices of GATT. Although it functioned as a forum for negotiation, the successes towards achieving the objective of creating an open multilateralism are notable. The number of countries preoccupied with adopting a commercial discipline has increased. Tariff protection was reduced considerably, as shown by the increase in openness of national markets. Empirical evidence shows a substantial boost of trade flows, the rate of world exports significantly outpacing GDP growth, which leads to new opportunities for development.

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INTRODUCTION

Post-war years were marked by significant changes in the global economy that have reshaped the traditional architecture of international trade; interdependence became a striking feature of the global economy. There are obvious interdependencies between world trade growth and promotion of liberal trade policies, developments in transport and communications technology, the increase of foreign investments, international business environment changes towards a more pronounced segmentation of supply chains, etc. GATT and its successor, WTO, have also played a vital role in reshaping the "architecture" of global trade and thereby of the entire world economy.

In this paper we propose a retrospective review of several aspects concerning the impact of GATT and its successor, WTO, on the international trade in the postwar period.

GATT AS A DRIVER OF MULTILATERALISM

Free trade has become the subject of international concerns after the end of World War II. Initially, discussions focused on the project of creating an International Trade Organization to facilitate some coordination of trade policies of the Member States in the direction of diminishing tariff protection, whose levels have seen a significant scale during the Great Depression of the early 30s. Americans, less affected by war and with an increasing production to be exploited, aimed at opening foreign markets; the British who were still under the seduction of free trade, however were concerned by the erosion of the position they held in the international arena, but also by the possibility to be forced to give up preferential relations with the Commonwealth countries, relations which were more substantial than those of the U.S. with Continental Europe. (Baldwin , 2006 , p.3)

As an interim measure, in 1947, a group of 23 countries began negotiations based on a provisional set of rules, which later became known as the *General Agreement on Tariffs and Trade* and entered into force in 1948.

GATT can be described more as a negotiating forum in which participating countries did not have membership but "contracting parties". It lacked a mechanism for dispute resolution and its jurisdiction circumscribes especially manufactured products; it lacked the authority to interfere in agriculture, services, intellectual property rights and foreign direct investment. (WTO)

The new protectionism in the 70s gave birth to a "wave" of non-tariff barriers such as import quotas, anti-dumping measures, etc.; expansion of multinational companies was visible not only in the manufactured goods but also in services; in the 80s, under the spur of integration in Western Europe, integration temptations occurred in other parts of the world. It was becoming increasingly obvious that "trading order" established under the auspices of GATT didn't respond to the realities of the global economy which was more dynamic and integrated; in these circumstances, the U.S. began to put pressure on European partners to launch a new round of negotiations to strengthen the international trading regime and to make it more viable. The U.S. efforts have led to the desired result; negotiations started in 1986 and ended in 1993, the agreement being signed in April 1994 in Marrakesh. A remarkable achievement of this round of negotiations is creation of the World Trade Organization (WTO), which was an important step in strengthening the international system emerged at Bretton Woods. (Gilpin , 2004, p. 83)

More than a negotiating forum, the WTO is an international organization whose rules incorporate an updated version of the original text of the GATT; in addition, the WTO include rules on trade in services (GATS - General Agreement on Trade in Services), rules relating to intellectual property rights, agricultural products, direct investment, dispute settlement etc..

In 2013, WTO had 159 members (among which may be mentioned, as notable presence, Russian Federation - from August 22, 2012, China-2001, the European Union - as single entity) that run about 95% of global trade flows. (WTO, 2013)

The agreement of establishing WTO reflects somewhat a compromise between the interests of industrialized countries and developing countries. Industrialized countries have gained greater protection of intellectual property rights and access to their products and services in the markets of other countries, and developing countries have achieved better access in developed country markets, especially for manufactured products. At some point, developing countries suspected GATT of being a tool of Western domination and a dependence promoter; but when they became exporters and manufacturers began to see in GATT, and then in WTO, an opportunity to defend their own interests. (Gilpin, 2004, p. 84)

After the initiation of GATT, the progress of trade liberalization on a multilateral basis was influenced by a complex of economic and political factors; the period covered from 1947 to present can be phased so (WTO, 2007):

➤ Phase 1947-1963, when the contracting parties gained experience in taking rules and establishing procedures for negotiation; at the end of this period, the trading system started to face two new challenges, namely the problem of non-tariff barriers and the problem of developing countries.

➤ Phase 1963-1979, when the negotiations focused on two issues that were raised at the end of the previous period.

➤ Phase 1980-1995 was marked by the efforts to launch a new round of negotiations, round which started in 1986 and completed with creating the World Trade Organization;

➤ Post-Uruguay round from 1995 to present, representing the first years of the WTO, marked by the launch of Doha Round during which negotiations are still ongoing.

Tariff protection has diminished considerably, especially from the 80s (Figure 1), leaving room for more subtle forms of protection. The average level of tariff protection promoted by WTO members on non-discriminatory basis (under MFN) varies greatly. Statistics show that the average tariffs applied by all developed countries has decreased considerably in the postwar period, being now far from representing a significant obstacle to trade.

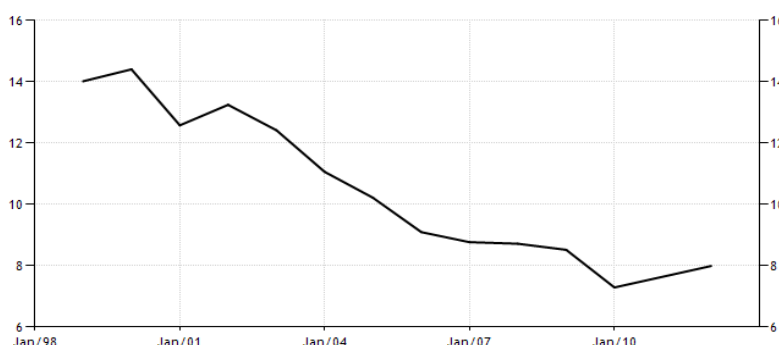


Figure 1. Level of tariffs in high income countries (%)

Source: <http://www.tradingeconomics.com>

Developing countries, on the whole, have reduced the average tariff protection to about 34% in 1980 and to 12% in 2000-2001, the trend continuing in the following years; a more significant cutting was achieved in the least developed countries, from 41.7% (1980) to 13% (2000-2001). South-East Asian countries and Latin American countries were more active towards trade liberalization, unlike Sub - Saharan African countries, the Middle East countries and North African countries. (WTO, 2007). Although the large majorities have reduced the customs duties as a result of commitments under GATT/WTO or as members of various integration schemes, currently "champions" of tariff protection still remain developing countries, as shown in Figure 2.

Middle income countries (%)



Low income countries (%)

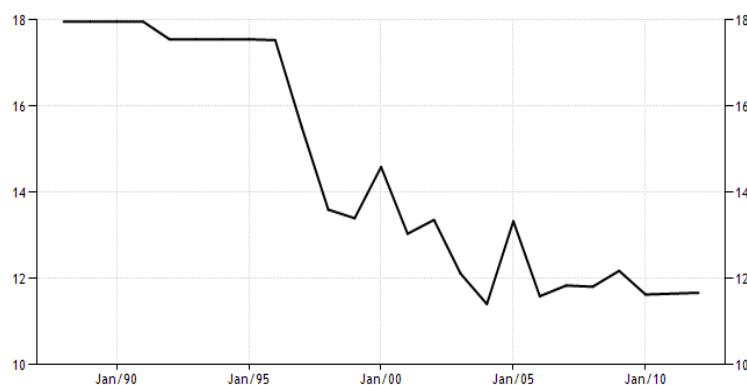


Figure 2. Level of tariffs in middle and low income countries (%)

Source: <http://www.tradingeconomics.com>

In recent years it was estimated that over two thirds of international trade flows are more affected by transport costs than by tariffs. As a result of the commitments made in the Uruguay Round, over 43% of non-agricultural imports from developed countries are not affected by any tariff (against 20% previously registered). This trend of liberalization has been favored by the foundation, in developed countries, of effective fiscal systems that allowed reducing dependence of state budget from easier revenue sources, such as custom duties (Negrescu, 1998, p. 12). Greater difficulties occurred in the process of negotiating the reduction of non-tariff trade barriers.

Agriculture continues to be the most protected field and also the source of many disputes between WTO members. The trade regime for agricultural products promoted by the U.S. is far more protectionist than that of Japan and the EU, although Europeans accuse Americans of protectionism disguised as cheap loans given to low developed countries in order to purchase U.S. agricultural production.(Bari, 2005) The tariff dispersion for non-agricultural products is lower, Japan being the country that applies the lower import tariffs. Textiles and clothing remain protected by relatively high customs duties, although from 1st of January 2005 all products in this sector were integrated to GATT rules (Table 1).

Table 1. Simple average of the consolidated custom duties and of those actually applied by the EU, U.S. and Japan in 2012

	EU		USA		Japan	
	Applied	Bounded	Applied	Bounded	Applied	Bounded
<i>Agricultural products</i>	13,2	13,7	4,7	4,7	16,6	22,1
<i>Non-agricultural products</i>	4,2	3,9	3,2	3,3	2,6	2,6
<i>Textiles</i>	6,6	6,5	7,9	7,9	5,4	5,6
<i>All products</i>	5,5	5,2	3,5	3,4	4,6	5,2

Source: WTO, *World Tariff Profiles 2013*, www.wto.org

SOME FEATURES AND TRENDS OF THE WORLD TRADE UNDER GATT AND WTO

The market openness was improved in the majority of GATT/WTO countries; this trend is reflected by the growing share of exports and imports in GDP not only on a global level but also on countries/groups of countries. Since the 70s this trend was more pronounced in countries with developing economies and countries with economies in transition as a result of the reduction of tariff protection and implementation of export-led development policies; countries with transition economies were involved more actively in international trade, especially since the 90s, with the change of political regimes. Emerging economies in South East Asia, for example, have made a significant contribution to ignite this trend, especially due to their orientation towards industrialization and export-led development policies.

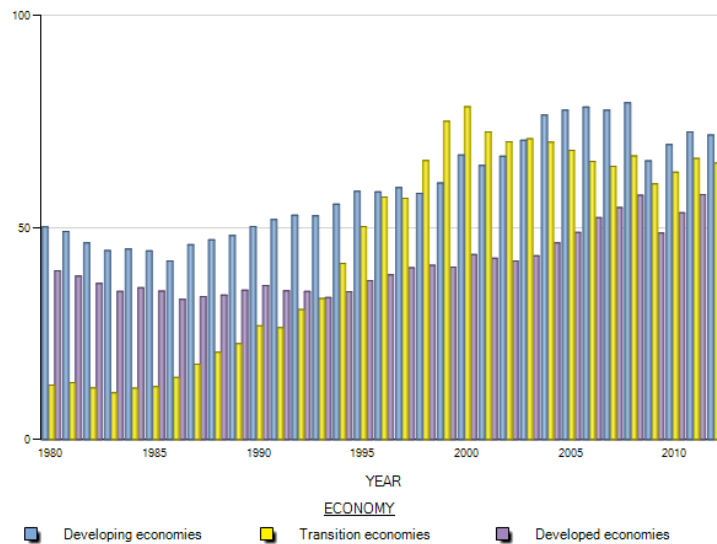
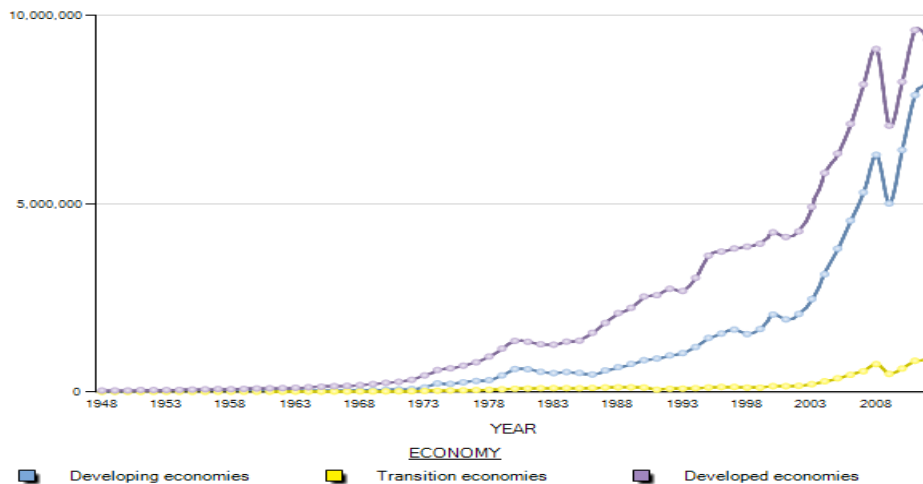


Figure 3. Evolution of market openness on categories of countries 1980-2012
 (Sum of imports and exports, % of Gross Domestic Product)
 Source: <http://unctadstat.unctad.org/TableView/chartView.aspx>

In the period 1948-2012 the value of export and import flows have multiplied over 100 times, but a significant growth is evident starting with the 70s; this tendency is visible both in developed countries as well as in developing countries (figure 4). It should be noted that the position of developed countries in world export flows improved significantly, despite the fact that GATT was often blamed that it primarily promotes the interests of developed countries.

Exports (US Dollars at current prices and current exchange rates in millions)



Imports (US Dollars at current prices and current exchange rates in millions)

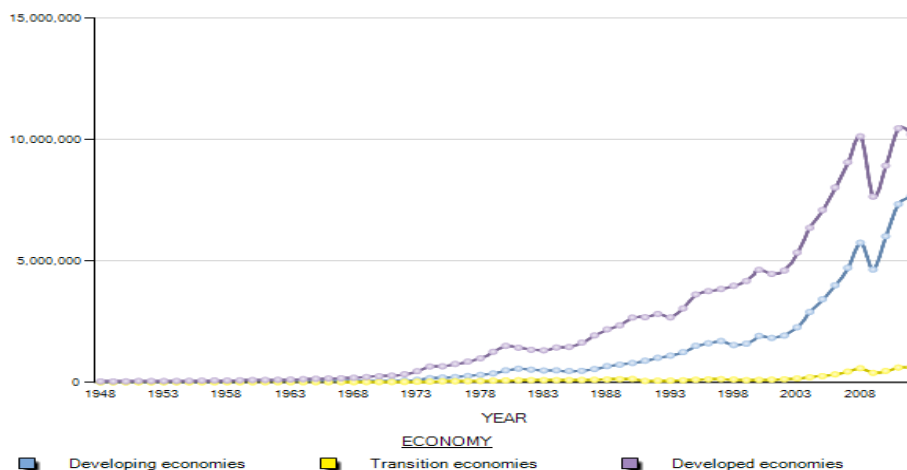


Figure 4. Value of the world merchandise exports and imports, 1948-2012, by level of development

Source: <http://unctadstat.unctad.org/TableViewer>

It is necessary to mention that the average growth rate of world trade in the second half of the twentieth century not only outmatched the growth rate of world GDP, but also the growth of world production. This trend was interrupted only during the periods when the global economy was in recession or was marked by events that had an impact on its behavior (eg terrorist attacks of September 2001, USA); from a historical perspective, the most significant contraction of world trade was recorded in 2009, a situation visible in figure 5.

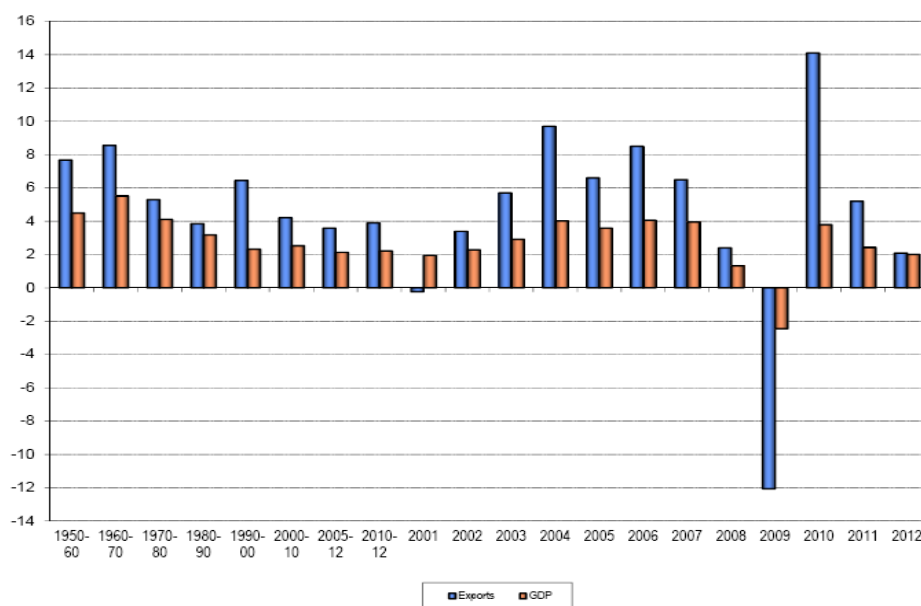


Figure 5. Evolution of annual growth of world exports compared to the annual growth rate of world GDP in the period 1950-2012 (%)

Source: WTO, *International Trade Statistics, 2013*, www.wto.org

Notable changes occurred in the structure of trade flows; the volume of manufactures exports grew faster than exports of agricultural products (Figure 6).

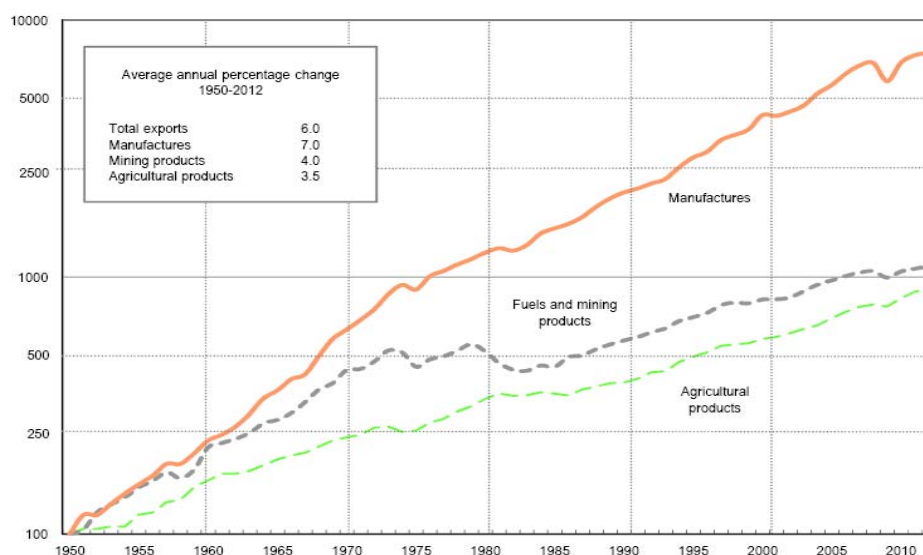


Figure 6. Evolution of the annual rate of growth of exports of manufactured products compared to growth of export of agricultural products, 1950-2012 (%)

Source: WTO, *International Trade Statistics*, 2013, www.wto.org

With the expansion of international trade the international competition has increased significantly, competition which in the late '90s, became more intense because a growing number of industrializing economies have shifted from a import substitution policy to a export-led development policy (Gilpin, 2004).

CONCLUDING REMARKS

Trade liberalization under the auspices of GATT began in a time when tariff protection was substantial high in most countries of the world and it initially focused mainly on manufactured goods. Within five decades, GATT acted as driver of multilateralism in the international arena; although, *de jure* did not have the status of international organization, *de facto*, despite its limited authority, GATT recorded notable successes in asserting a framework for multilateral trade negotiations and in promoting non-discrimination between countries. The objective of GATT was an open multilateralism (primarily by reducing tariff protection) to facilitate the development and consolidation of an open world economy; this objective was taken over by his successor, the World Trade Organization, which operates as a real international organization whose intervention powers and tools are more extensive than those of GATT .

GATT was the expression of a first attempt to institutionalize the postwar trade regime and the framework of successive rounds of negotiations that have resulted in commitments of "tariff disarmament" from both developed countries as well as from the developing countries. However, industrialized countries were more active in terms of market opening; starting from the '80s, developing countries were convinced of the benefits of an open multilateral trading system, implementing reform measures and reduction of trade barriers as an expression of a reconfiguration of internal politics or as pressure from international organizations.

Empirical evidence reveals amplification of international trade flows, especially since the 70s; an explanation may be provided by the increasing number of countries concerned with acquiring a trading disciplines and implementing commitments under successive rounds of negotiations under the auspices of GATT. A number of syncope in this trend were recorded during the periods of turbulence (recessions of '70s and '80s, the economic crisis triggered by the end of 2000 and so on). Since the second half of 2008 and in 2009, international trade had recorded the most severe contraction of the entire postwar period.

Position of developing countries in the global market has improved; opening markets and increasing trade flows have created new opportunities for development. However, middle and low income countries remain a challenge for WTO, the successor to GATT, while the imports from these countries are still more affected by trade barriers compared to those from developed countries.

The growth of international trade flows faster than world GDP, the downgrade of growth of agricultural exports by the growth of manufactures exports, increasing markets openness are some other evidence of the impact of negotiations in GATT and WTO on international trade pattern.

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WEB RESOURCES

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