

The GATT @ 75

Douglas A. Irwin

June 19, 2023



Dartmouth



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The Genesis of the GATT



Douglas A. Irwin
Petros C. Mavroidis
Alan O. Sykes

CAMBRIDGE

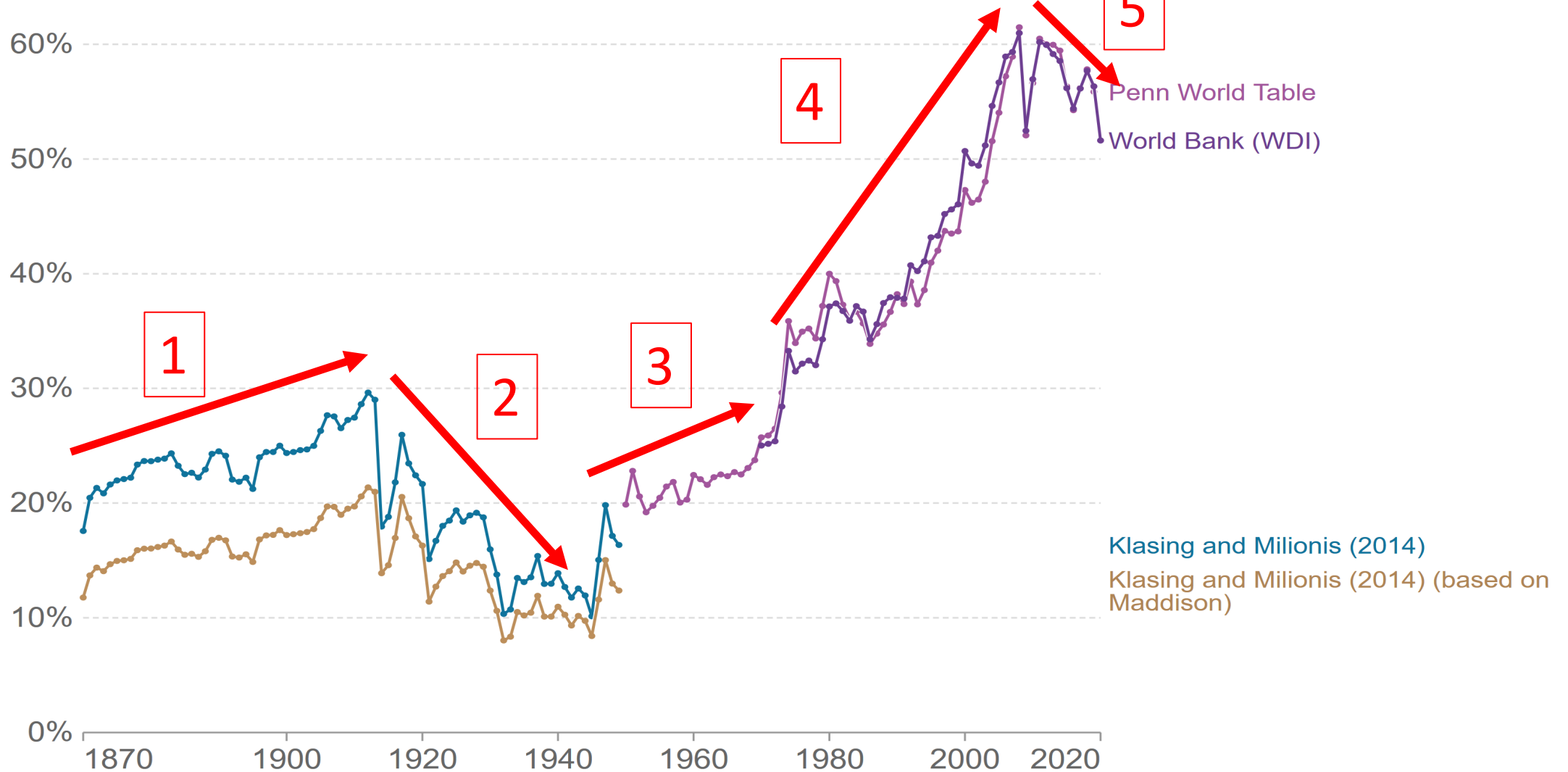


GATT and GLOBAL ORDER in the Postwar Era

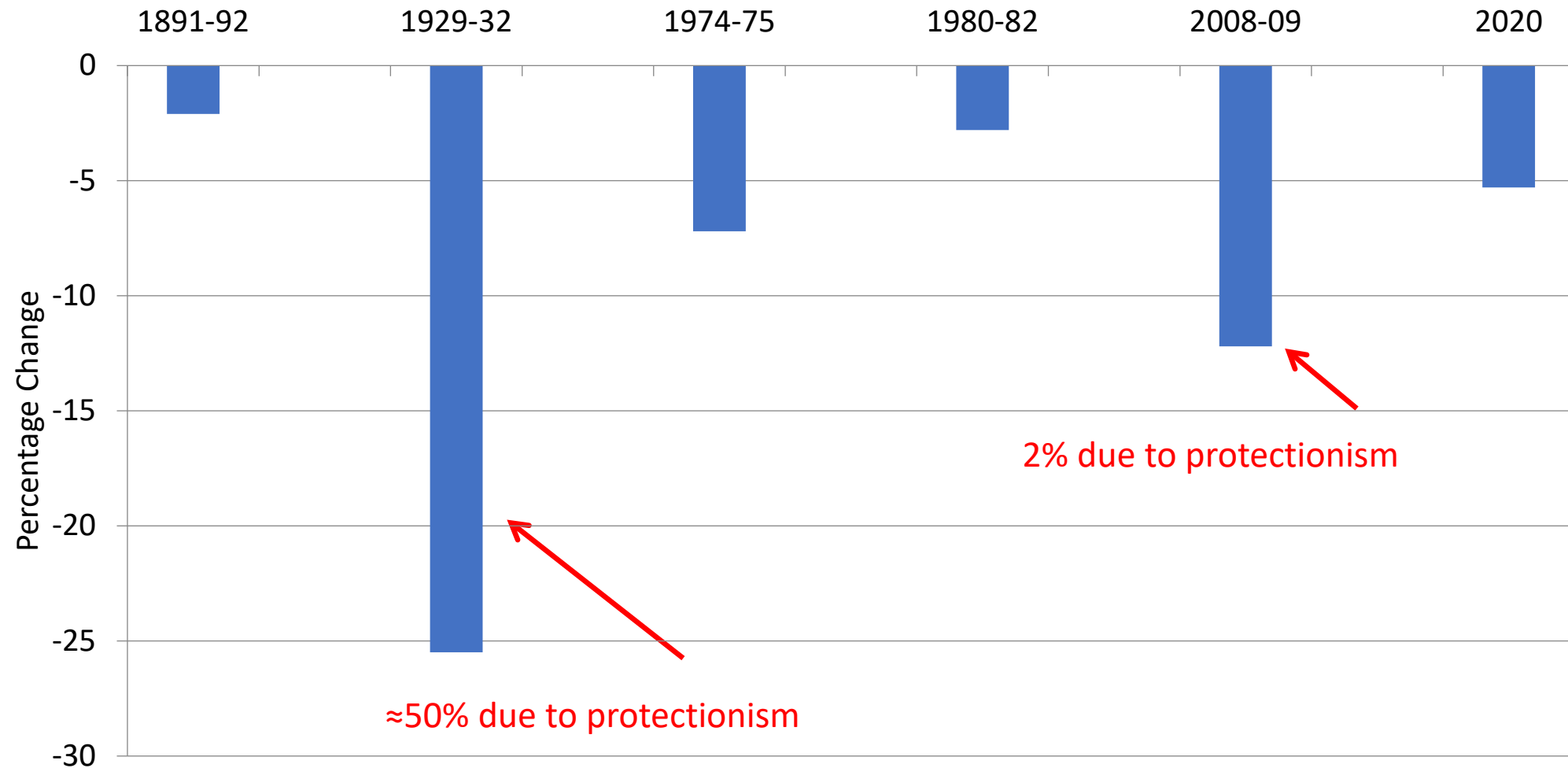
Francine McKenzie

Globalization over 5 centuries

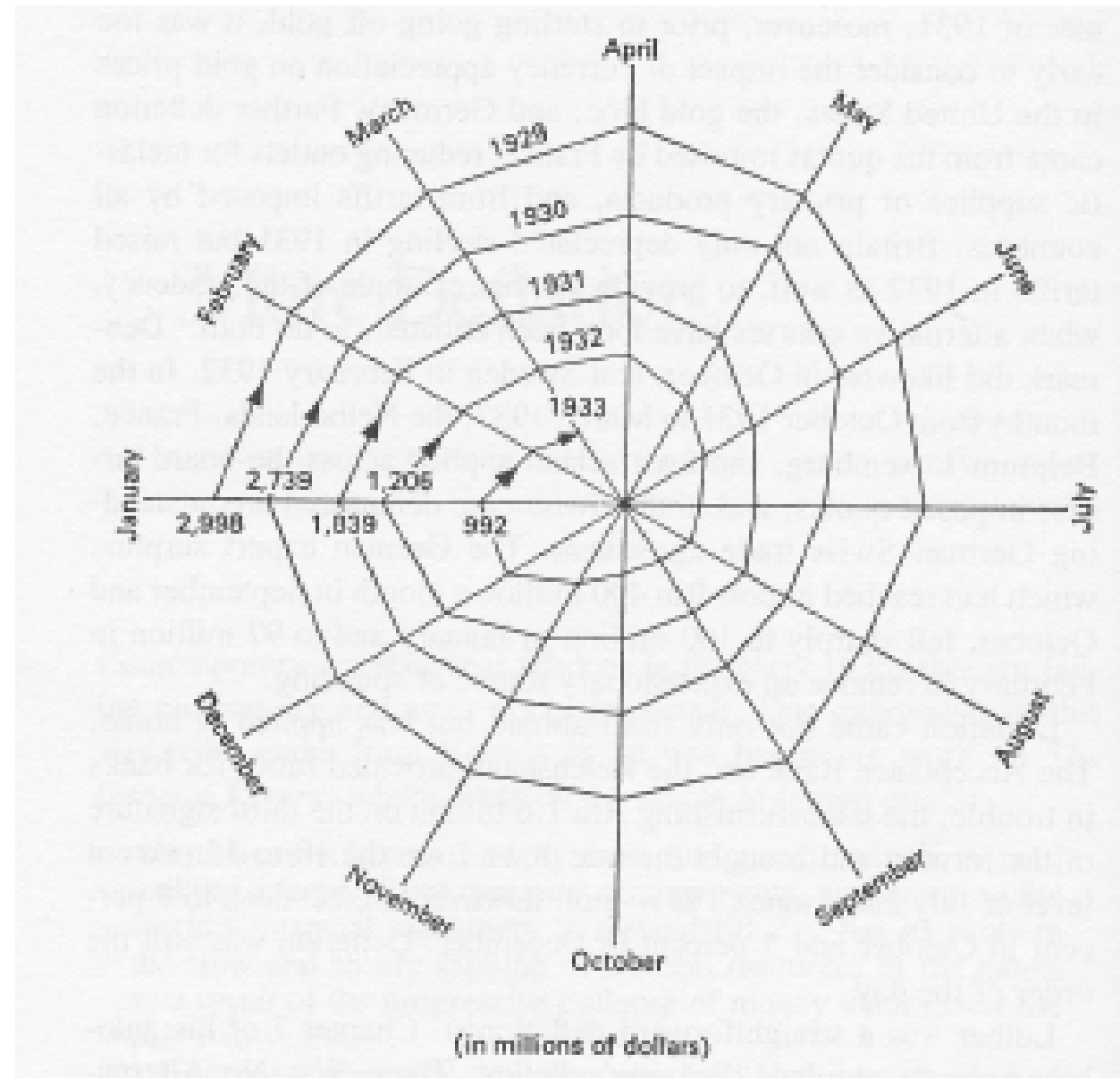
Shown is the "trade openness index". This index is defined as the sum of world exports and imports, divided by world GDP. Each series corresponds to a different source.



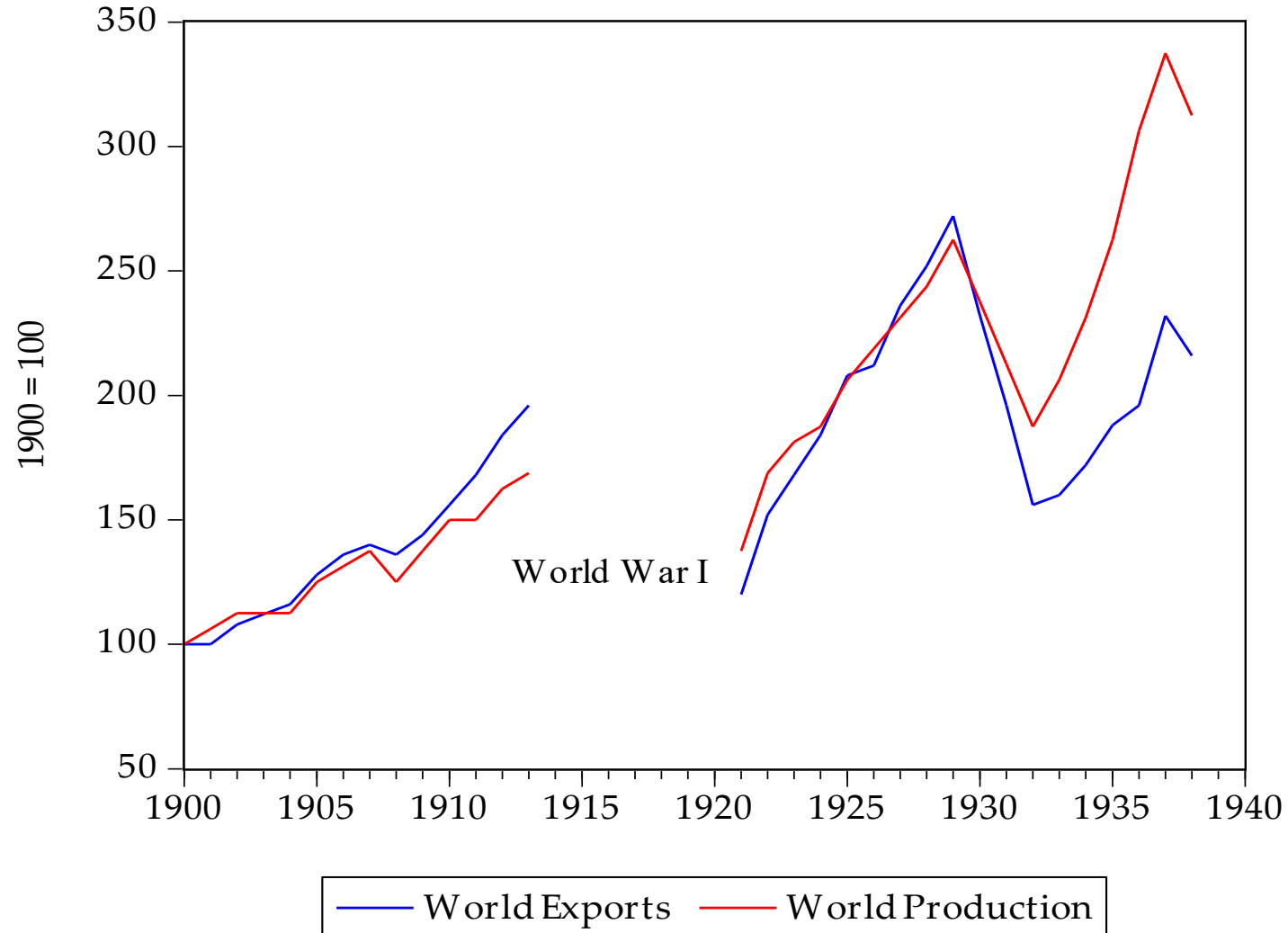
World trade shocks



Downward Spiral of World Trade

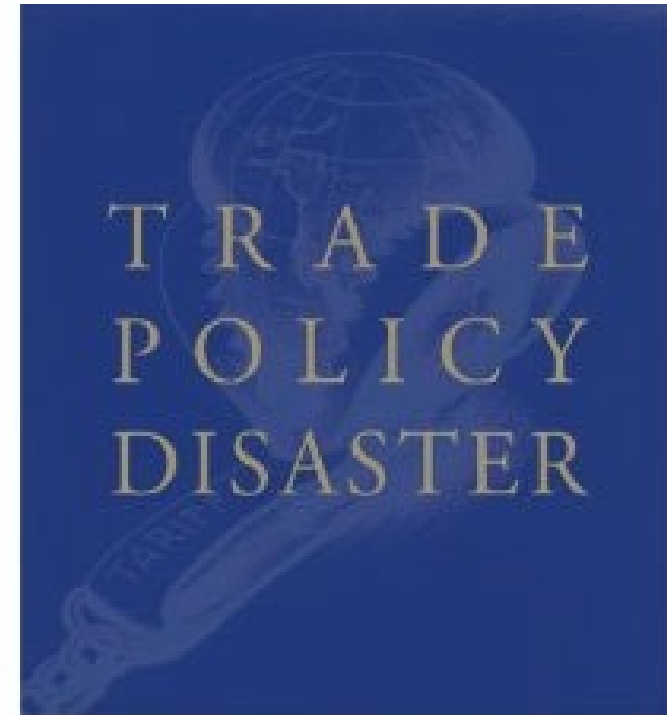


Lagging World Trade in 1930s



The Great Depression (1929-33)

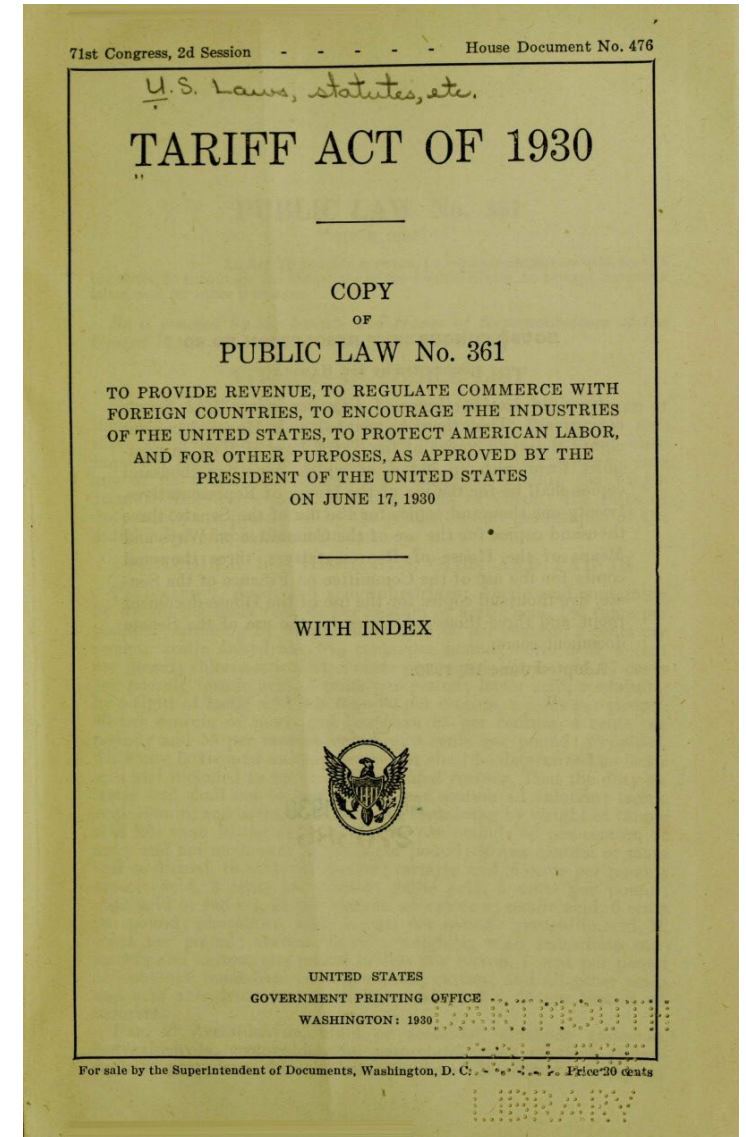
- Worldwide outbreak of protectionism
 - Higher tariffs
 - Import quotas
 - Foreign exchange controls
 - Preferential trade agreements



LESSONS FROM THE 1930s

Douglas A. Irwin

Willis Hawley & Reed Smoot



1,028 Economists Ask Hoover To Veto Pending Tariff Bill
Special to The New York Times.
New York Times (1857-Current file); May 5, 1930; ProQuest Historical Newspapers The New York Times (1851 - 2005)
pg. 1

1,028 Economists Ask Hoover To Veto Pending Tariff Bill

**Professors in 179 Colleges and Other Leaders Assail
Rise in Rates as Harmful to Country and
Sure to Bring Reprisals.**

Special to The New York Times.

WASHINGTON, May 4.—Vigorous opposition to passage of the Hawley-Smoot tariff bill is voiced by 1,028 economists, members of the American Economic Association, in a statement presented to President Hoover, Senator Smoot and Representative Hawley by Dr. Claire Wilcox, associate professor of economics at Swarthmore College, and made public here today. They urge the President to veto the measure if Congress passes it.

Economists from forty-six States and 179 colleges, among them Irving Fisher of Yale, Frank W. Taussig of Harvard, Frank A. Fetter of Princeton, Wesley C. Mitchell of Columbia, J. Laurence Laughlin of the University of Chicago and Willford I. King of New York University join in the statement.

Arguing against increased tariff rates they declare that the pending bill will raise the cost of living and injure the "majority of our citizens," that under it the vast majority of farmers would lose and that Ameri-

of high tariff proponents that higher rates will give work to the idle. Employment, they state, cannot be increased by restricting trade, and American industry, in "the present crisis, might be spared the burden of adjusting itself to higher schedules of duties."

They urge the administration to give regard to that "bitterness which a policy of higher tariffs would inevitably inject into our international relations."

The text of the statement is:

"The undersigned American economists and teachers of economics strongly urge that any measure which provides for a general upward revision of tariff rates be denied passage by Congress, or if passed, be vetoed by the President.

"We are convinced that increased restrictive duties would be a mistake. They would operate, in general, to increase the prices which domestic consumers would have to pay. By raising prices they would encourage concerns with higher costs to under-

Peddling Protectionism

SMOOT-HAWLEY and THE GREAT DEPRESSION



Douglas A. Irwin

US Secretary of State Cordell Hull



"I will never falter in my belief that enduring peace and the welfare of nations are indissolubly connected with friendliness, fairness, equality and the maximum practicable degree of freedom in international trade."

RTAA

- Delegated negotiating power to the president
- Changed US political economy of trade

73^d CONGRESS } HOUSE OF REPRESENTATIVES } REPORT
2^d Session } } No. 1000

AMEND TARIFF ACT OF 1930: RECIPROCAL TRADE AGREEMENTS

MARCH 17, 1934.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. DOUGHTON, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. R. 8687]

The Committee on Ways and Means, to which was referred the bill (H. R. 8687) to amend the Tariff Act of 1930, having had the same under consideration, reports it back to the House and recommends that the bill do pass.

In making this recommendation the Committee on Ways and Means would emphasize that this bill, although designed to meet an emergency, is not a compromise with emergency. It is based upon thoroughly sound principles of national policy.

SHRINKAGE OF WORLD TRADE

During recent years the world has been experiencing a period of acute economic distress and suffering, accompanied by, and to a large extent resulting from, an alarming shrinkage of world trade. The President, addressing the Congress, speaking of the decline of world trade, has said:

Measured in terms of the volume of goods in 1933, it has been reduced to approximately 70 percent of its 1929 volume; measured in terms of dollars, it has fallen to 35 percent.

As stated by the Secretary of State in his testimony before the committee on March 8, 1934:

According to reliable estimates, if world trade had gone forward with the annual ratio of gain existing before the war, the nations during the intervening years would have had some \$275,000,000,000 more than they have actually enjoyed. And according to these estimates, if world trade had thus progressed there would be today an annual international commerce of near \$50,000,000,000, instead of the pitiable figures of less than \$12,000,000,000 for 1933.

GENERAL PROVISIONS
FOR INCLUSION IN TRADE AGREEMENTS

As revised to December 13, 1941

Preamble

Provisions Relating to Treatment of Trade in General

- (1) Most-favored-nation clause
- (2) Internal taxes
- (3) Quotas in general
- (4) Exchange control
- (5) Monopolies and government purchases
- (6) Customs administrative matters, advances in duties,
and customs penalties

Provisions Relating to Concessions

- (7) Duty concessions by foreign country
- (8) Duty concessions by the United States
- (9) Compensating taxes
- (10) Dutiable value and conversion of currencies
- (11) Quotas on scheduled products
- (12) Withdrawal or modification of concessions
- (13) General provision to safeguard concessions

General Provisions as to Application of Agreement

- (14) Territorial application
- (15) Exceptions to most-favored-nation treatment
- (16) General reservations
- (17) Consultation regarding technical matters; committee
of sanitary experts
- (18) Proclamation, ratification and definitive entry
into force
- (19) Provisional application
- (20) Duration and termination

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NOT CLASSIFIED

PROPOSALS



for Expansion of World Trade and Employment

Developed by a Technical Staff within
the Government of the United States
in Preparation for an International
Conference on Trade and Employment
and Presented for Consideration by the
Peoples of the World

London, October-November 1946



- Canada – think multilateral, but start with small nuclear group
- Decision to go for a GATT immediately and then an ITO

STATES COMPOSED OF THE PREPARATORY COMMITTEE OF THE UNITED
NATIONS CONFERENCE ON TRADE AND EMPLOYMENT

GENERAL AND NON-DISCRIMINATORY DRAFT AGREEMENT BY
THE MEMBERS OF THE UNITED STATES

GENERAL AGREEMENT ON TRADES AND TRADE

The governments in respect of which this Agreement is signed,

Having been asked by the Economic and Social Council of the United Nations
to prepare, for the consideration of the International Conference on Trade and
Employment, a Charter for an International Trade Organization of the United

Nations;

Having, as the Preparatory Committee for the Conference, recommended to the
Conference the provisions of such a Charter, the text of which is set forth in
the Report of the Preparatory Committee; and

Being desirous of furthering the objectives of the Conference by providing
an example of concrete attainment capable of generalization to all countries on
equitable terms;

Have, through their respective Plenipotentiaries, agreed on the following:

ARTICLE I

General Most-Favored-Nation Treatment

1. With respect to custom duties and charges of any kind imposed on or
in connection with importation or exportation or imposed on the international
transfer of payments for imports or exports, and with respect to the method of
levying such duties and charges, and with respect to all rules and formalities
in connection with importation or exportation, and with respect to all matters
pertaining to the transit of, any merchandise, wherever, without or immunity
granted by any contracting state to any product originating in or destined for
any other country, shall be accorded immediately and unconditionally to the
like product originating in or destined for all other contracting states

(respectively).

Palais des Nations April-October 1947





Clayton versus Cripps





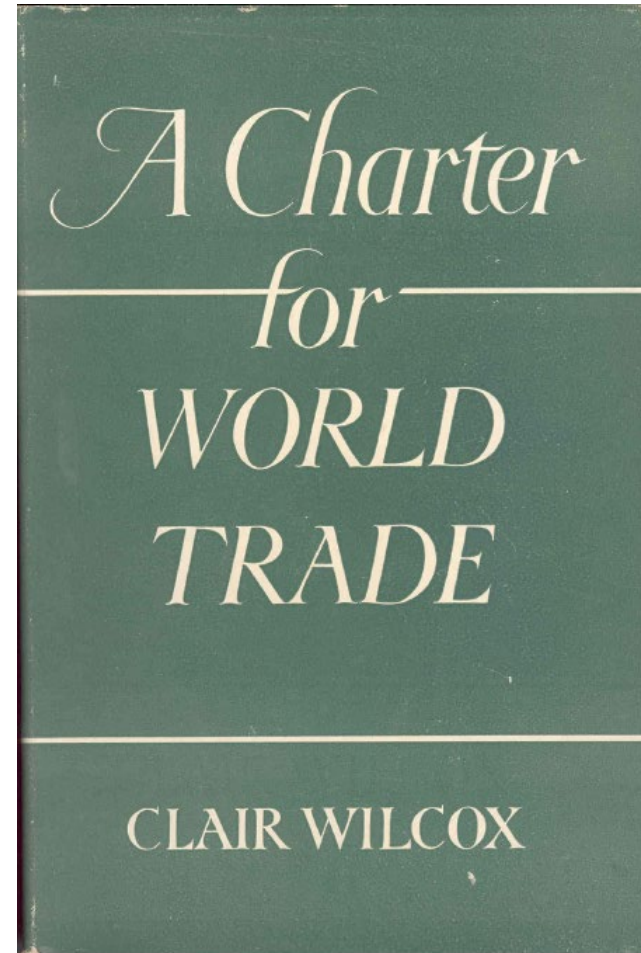
Failure of the ITO



Havana Charter *for an* INTERNATIONAL TRADE ORGANIZATION

March 24, 1948

*Including a Guide to
the Study of the Charter*



Rationale for the GATT

- “. . . .we cannot succeed in building a peaceful world unless we build an economically healthy world.”

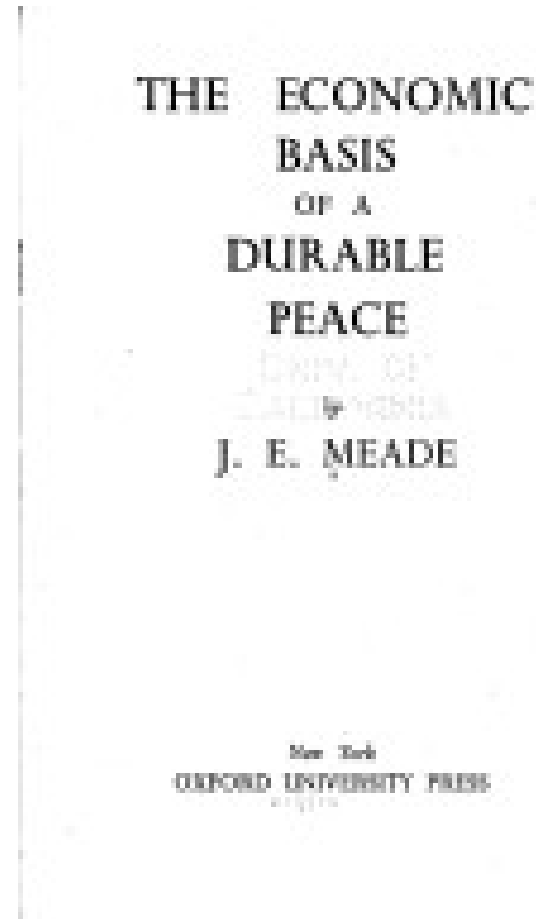
-- Franklin Roosevelt in 1945

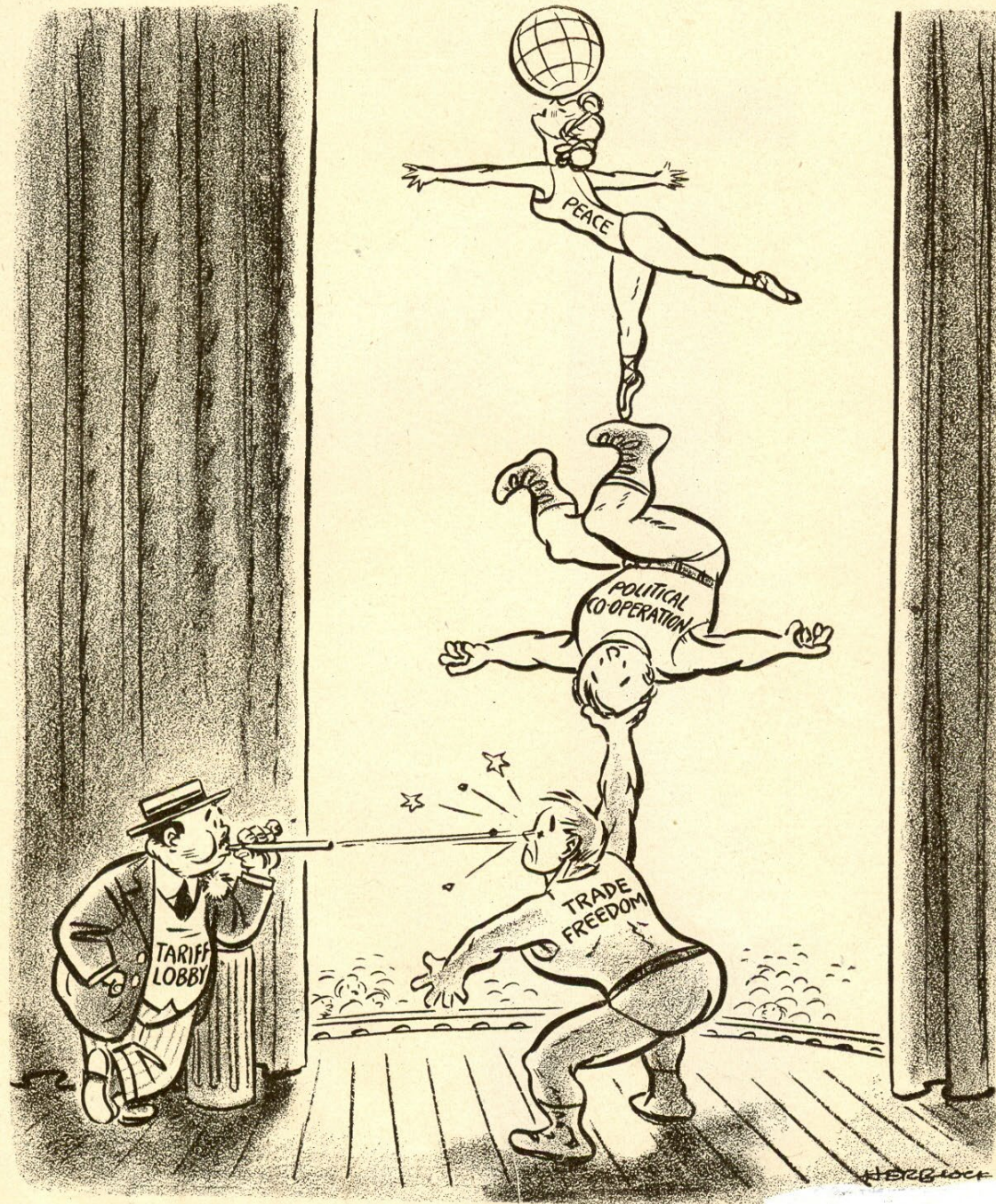
President Harry Truman

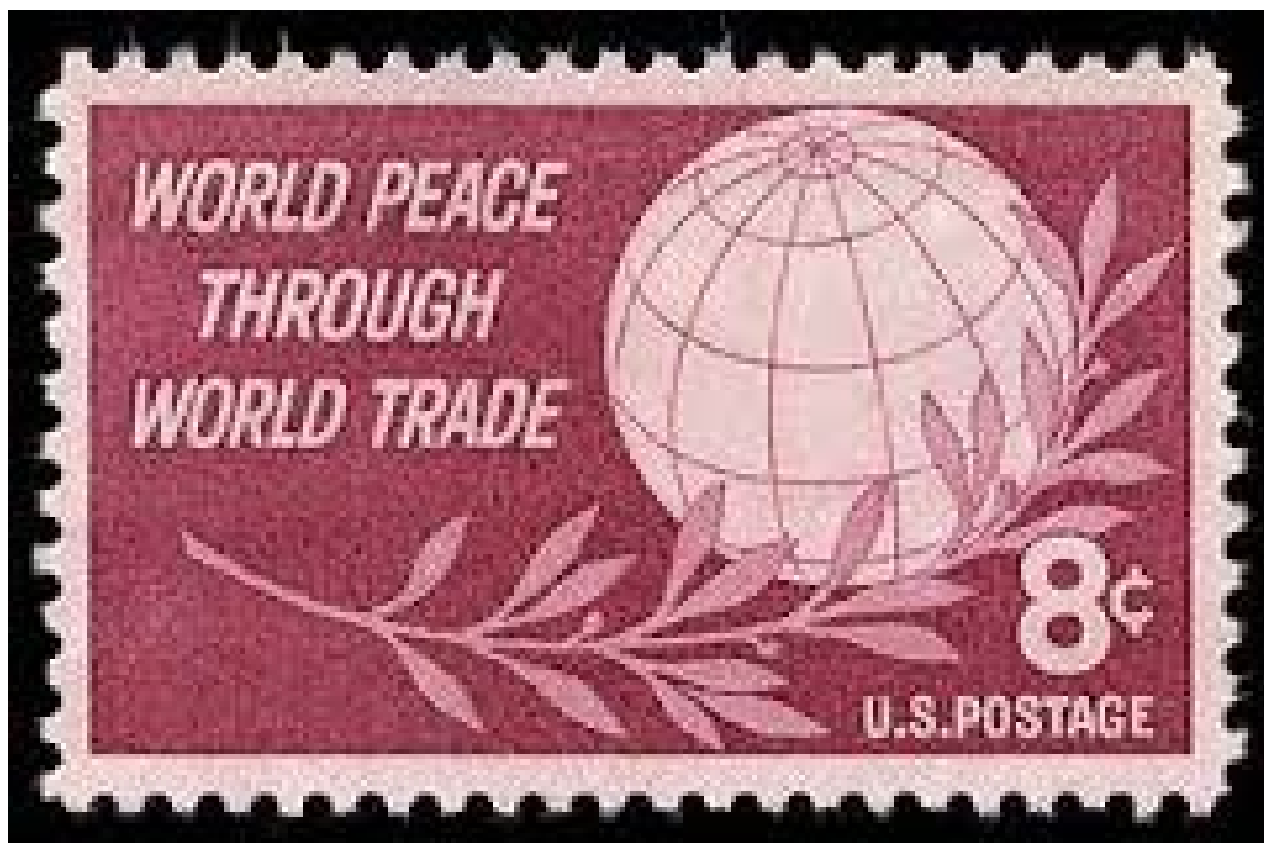


- “At this particular time [1947], the whole world is concentrating much of its thought and energy on attaining the objectives of peace and freedom. These objectives are bound up completely with a third objective-- reestablishment of world trade. In fact the three--peace, freedom, and world trade--are inseparable. The grave lessons of the past have proved it.”

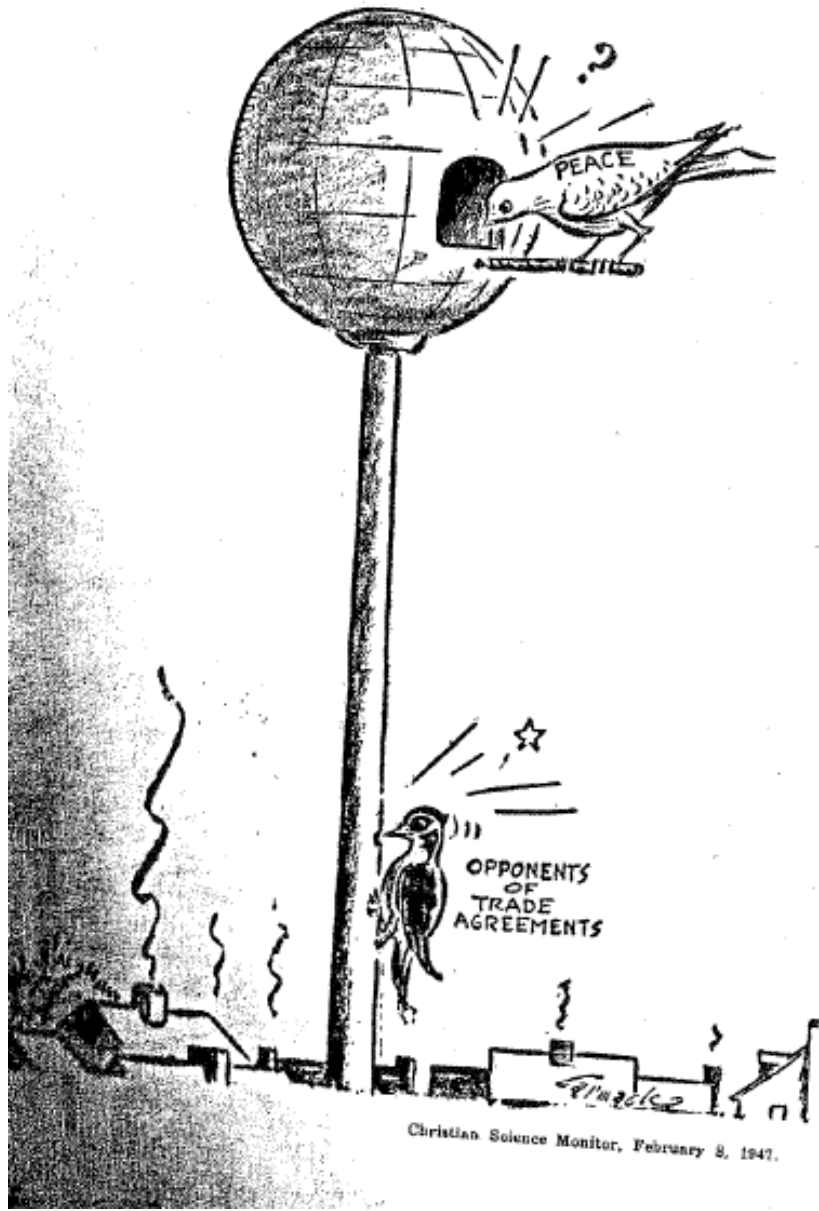
James Meade - 1940







"Shoo!"



Christian Science Monitor, February 8, 1947.

GATT Principles

1. Nondiscrimination

- Article I – most favored nation (MFN)
- National Treatment

2. Tariffs only

3. Consultations

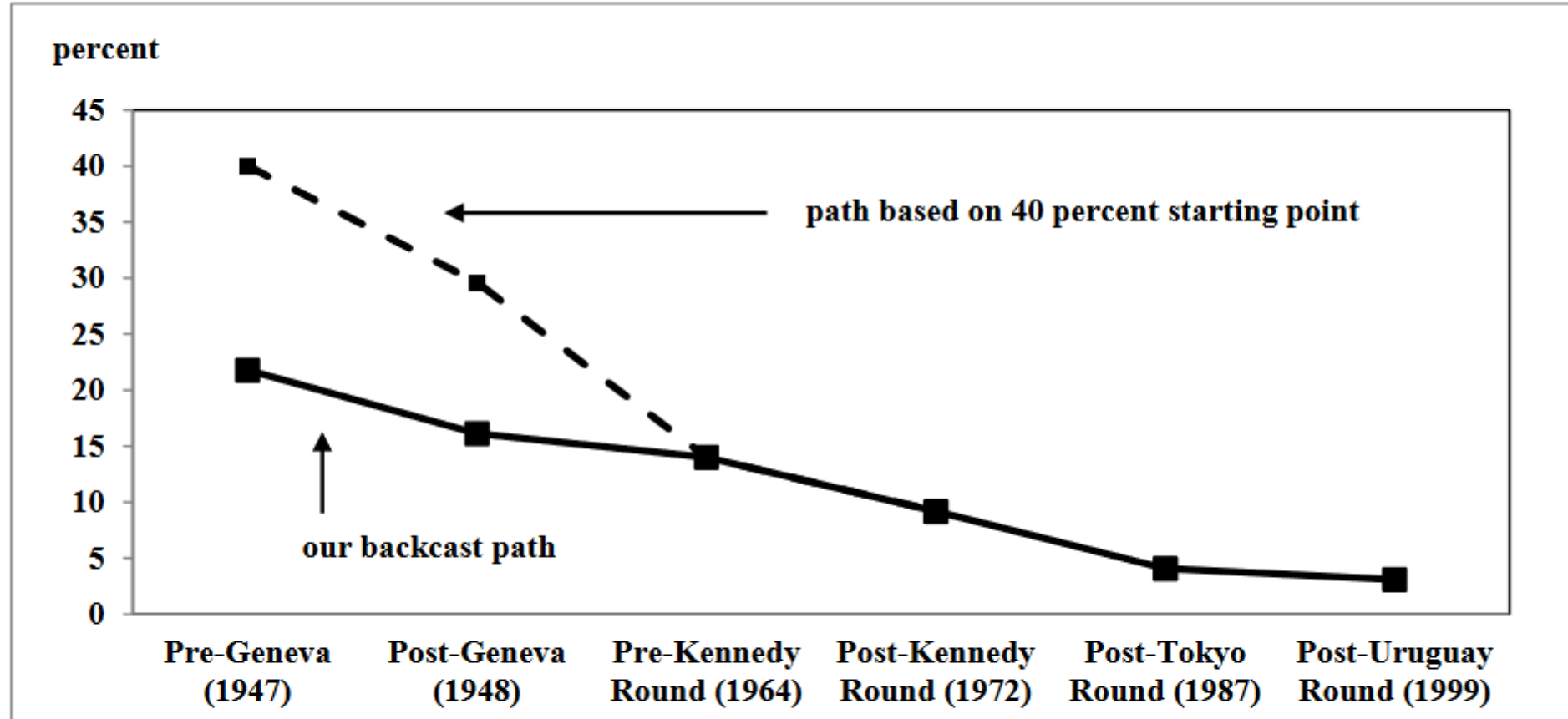
4. Negotiations

Table 9: GATT Tariff Reductions

Implementation Period	Round Covered	Weighted Tariff Reduction	Weights based on MFN imports (year)
1948	Geneva (1947)	-26	1939
1950	Annecy (1949)	-3	1947
1952	Torquay (1950-51)	-4	1949
1956-58	Geneva (1955-56)	-3	1954
1962-64	Dillon Round (1961-62)	-4	1960
1968-72	Kennedy Round (1964-67)	-38	1964
1980-87	Tokyo Round (1973-79)	-33	1976/77
1995-99	Uruguay Round (1986-94)	-38	1988/1989

Source: WTO (2007), p. 207.

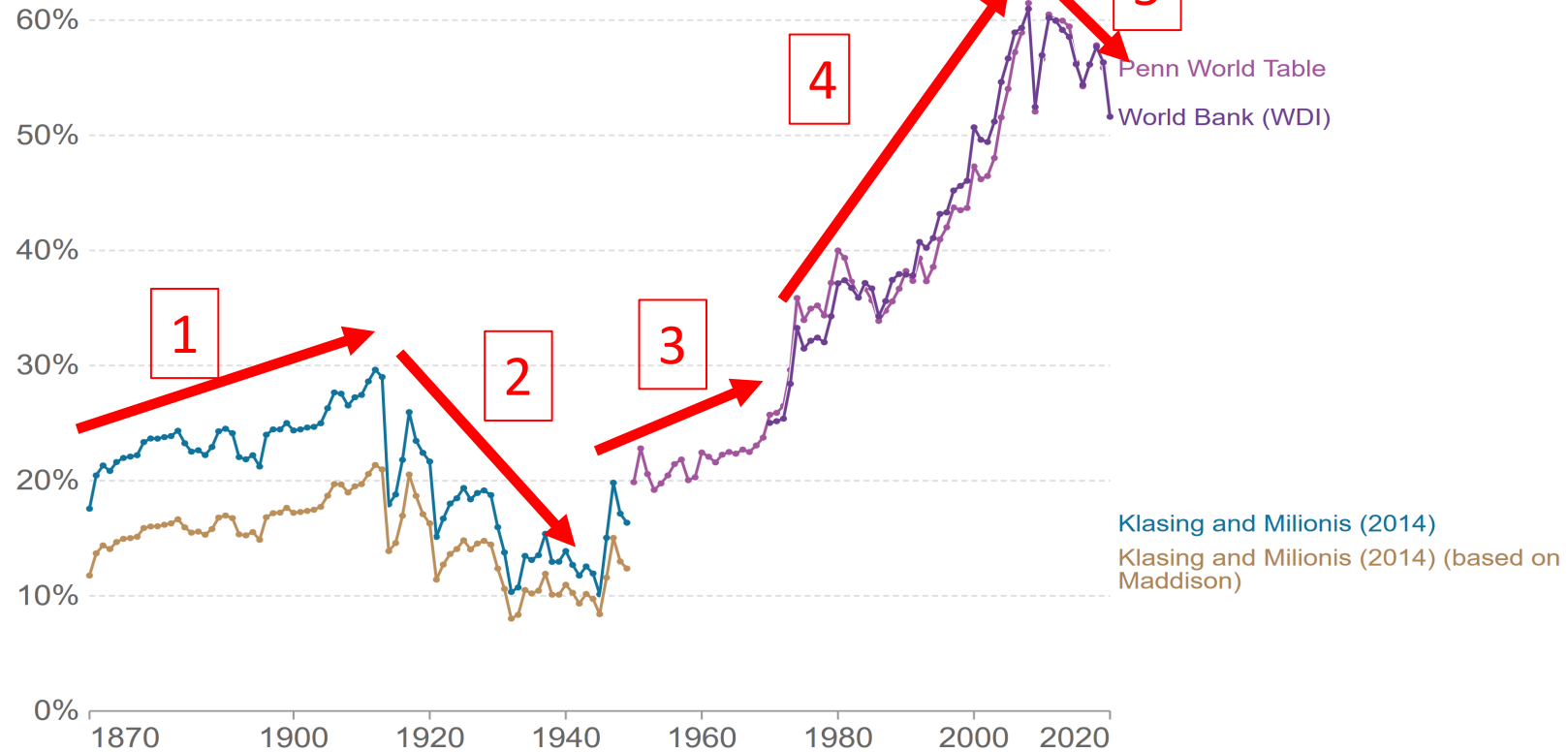
Figure 1: Path of Average Tariffs: Pre-Geneva to Post-Uruguay Round



Source: constructed by the authors, based on average tariff levels for United States, European Community/Union and Japan. See text for discussion. Backcast estimate of pre-GATT 1947 average tariff level of 21.8 percent based on upper bound assumption of 26 percent tariff cut in the first (Geneva) Round. Assuming a 21 percent tariff cut in the first (Geneva) Round would imply a backcast estimate of pre-GATT 1947 average tariff level of 20.5 percent.

Globalization over 5 centuries

Shown is the "trade openness index". This index is defined as the sum of world exports and imports, divided by world GDP. Each series corresponds to a different source.



Source: Klasing and Milionis (2014), Estevadeordal, Frantz, and Taylor (2003), World Bank, Penn World Tables v10
OurWorldInData.org/trade-and-globalization • CC BY

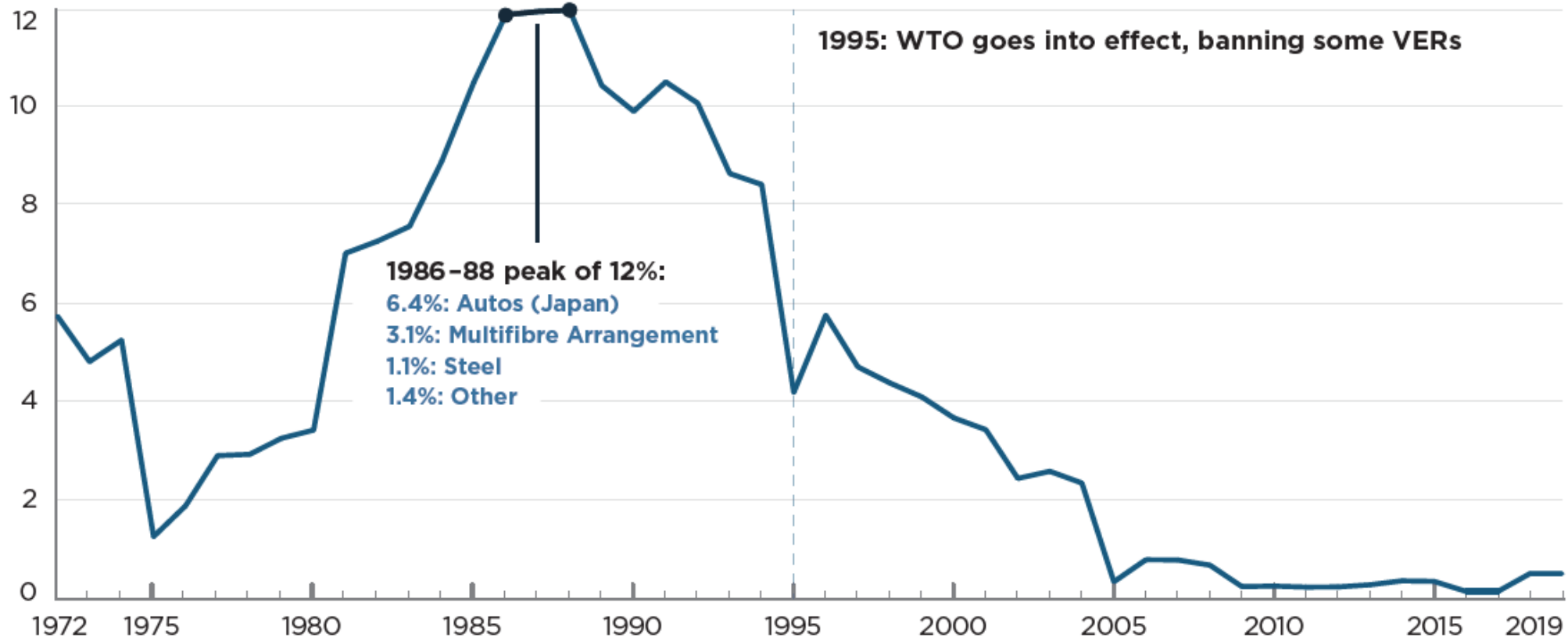
Uruguay Round (1986-1993)



Figure 1

Voluntary export restraints were often used as protection during the GATT period but were mostly phased out under the WTO

Percent of US imports covered by voluntary export restraints (VERs), 1972–2019



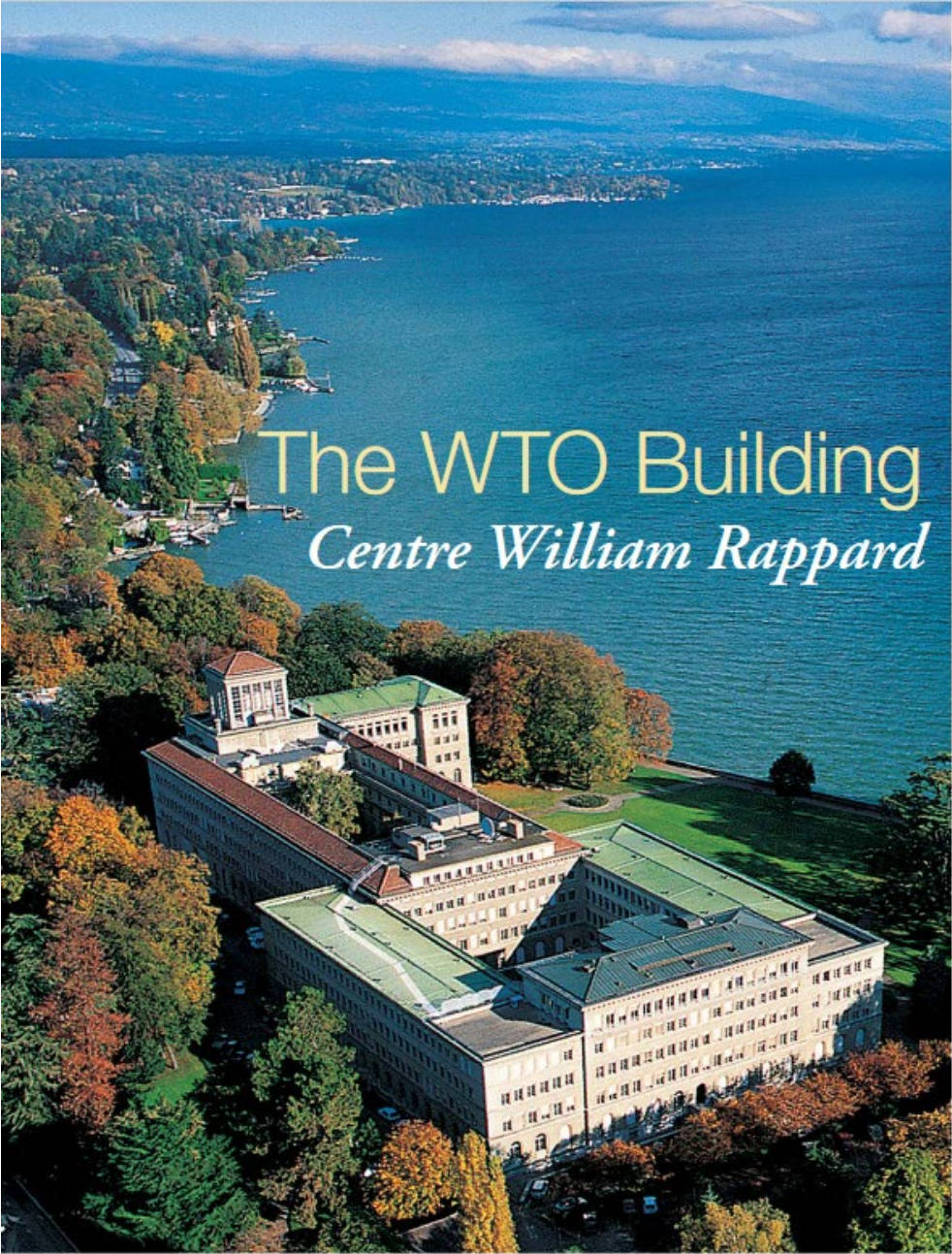
WTO = World Trade Organization

Note: The General Agreement on Tariffs and Trade (GATT) was in effect from 1948 to 1994.

Source: Constructed by the authors with data from Bown (2020).

World Trade Organization Agreements

Agreements	Description
General Agreement on Tariffs and Trade (1947)	The legal framework that established the modern World Trade Organization as we know it. It has allowed for the removal of barriers to trade in an effort to build a more fair international trading system between members.
Agreement on Agriculture	Reduces domestic support for agricultural produces like export subsidies and limited market access. Also addresses issues of food security, environment, and concerns of developing countries.
Agreement on the Application of Sanitary and Phytosanitary Measures	Increases transparency for the trade of plants and animals produced with certain additives like pesticide. Prevents governments from restricting imports based on overtly restrictive additive rules.
Agreement on Technical Barriers to Trade	Removes non-tariff restrictions on trade like standards, testing, and certifications for products. Eases the regulatory process for trade between members.
Agreement on Trade-Related Investment Measures	Removes barriers to investment between members that could restrict or distort trade. This includes allowing members' equal treatment for investment as well as restrictions on local content requirements.
Agreement on Implementation of Antidumping	Limits members' ability to apply antidumping measures without first going through a sufficient investigation at the World Trade Organization.
Agreement on Implementation of Customs Valuation	Normalizes the customs value of imported goods between members.
Agreement on Preshipment Inspection	Ensures governments cannot excessively use preshipment inspections to restrict the outflow of trade.
Agreement on Rules of Origin	Increases transparency and a long-term standard for the trade of goods originating from certain areas that is not excessively restrictive.
Agreement on Import Licensing Procedures	Increases the information required, and the amount of restrictions applicable, for import licenses.
Agreement on Subsidies and Countervailing Measures	Establishes a more definitive definition and rules for subsidies for industry groups and the level of countervailing duties against imports.
Agreement on Safeguards	Sets limits on members' ability to enact safeguard measures to protect domestic industry from import competition.
General Agreement on Trade in Services	Establishes an equal treatment for services across members.
Agreement on Trade-Related Aspects of Intellectual Property Rights	Establishes rules and disciplines around the protection of intellectual property including a dispute settlement.
Understanding on Rules and Procedures Governing the Settlement of Disputes	Strengthens the existing dispute settlement system to enable members to litigate and resolve issues over other agreements.
Trade Policy Review Mechanism	Establishes a periodic review for members and whether they are upholding the various agreements.
Agreement on Trade in Civil Aircraft	Removes tariff and non-tariff barriers to civil aviation trade.
Agreement on Government Procurement	Increases transparency and non-discrimination for the goods and services purchased by members.



WORLD TRADE
ORGANIZATION

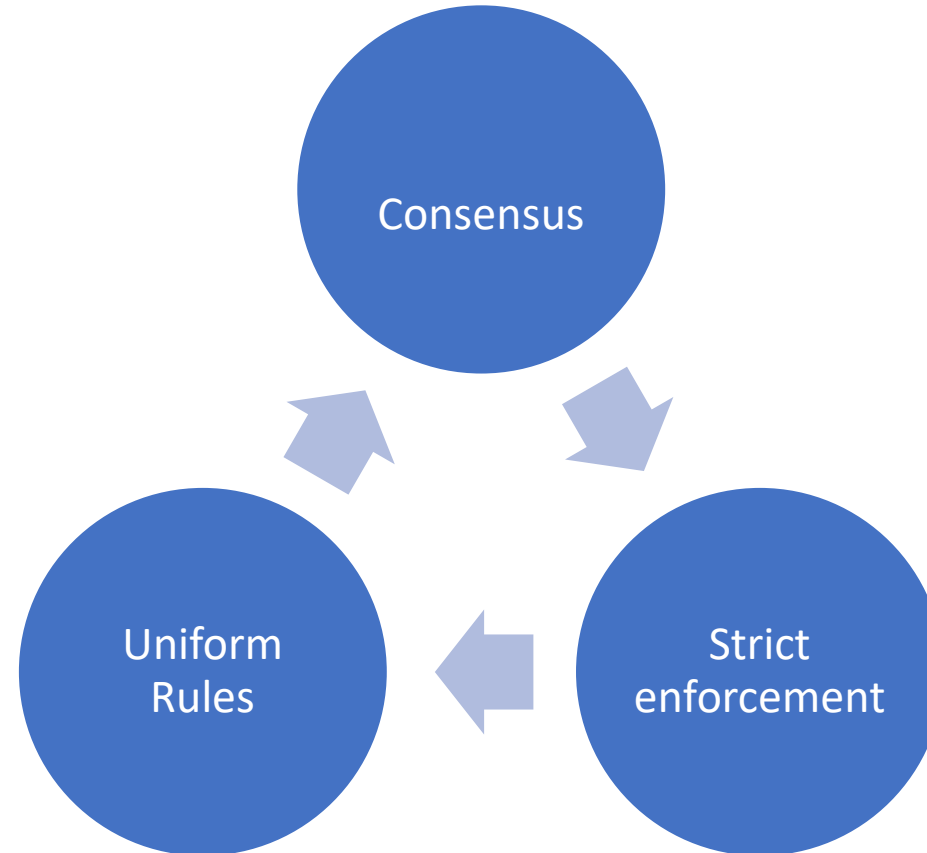






WTO Trilemma

- Consensus
- Uniform rules
- Strict enforcement



The *End* of the Big Trade Deal

BY DANIEL K. TARULLO

*Why Doha will be the last of the
grand multilateral trade negotiations.*

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The Doha Round of multilateral trade negotiations has long been on life support. Those who recall the years in which the Uruguay Round was comatose may regard a near-death experience as a necessary stage before eventual recovery. Perhaps the mid-summer efforts to revive the talks will succeed. But regardless of whether Doha ends in at least a limited agreement, it may well be the last major round of the multilateral trade negotiations that have defined the world trading system since World War II. One way or another, trade policy officials and, indeed, everyone else concerned with international economic arrangements would be wise to begin contingency planning now.

DIAGNOSING DOHA'S PROBLEMS

The Doha negotiations have obviously been going badly for several years. It is less well-recognized that this round of negotiations was in trouble even before it was formally begun. The first attempt at launching a round, at a November 1999 Ministerial in Seattle, was a debacle. The Bush Administration had no more success in its early months. As with almost every aspect of international relations, the

Daniel K. Tarullo, formerly President Clinton's Assistant for International Economic Policy, is Professor of Law at Georgetown University.

Is China Killing The WTO?

BY SUSAN ARIEL AARONSON

*Chinese officials are
ignoring both
international and local
law for companies that
produce for export.*

For fifteen long years, the members of the GATT/WTO debated whether they would be better off with China as a member. Trade policymakers understood that the international organization could not pretend to govern world trade with such an important trading nation outside of the World Trade Organization. They wagered that China's trade policy would become more predictable, accessible, and transparent. Moreover, they concluded that member states could collaborate, using the WTO's rules, to prod China to act responsibly as a global trader. China acceded to the WTO in 2001.

To some degree that bet has "paid off," producing benefits for the citizens of China and other countries. Trade has helped China lift some four hundred million people out of poverty and has provided more of the Chinese people with greater access to opportunities. Foreign investors and producers now serve China's growing market, while consumers worldwide can purchase a broad range of well-made affordable goods made in China. Meanwhile, Chinese demand for goods and raw materials has created jobs and stimulated economic growth in many developing countries. The World Bank notes that the efficiency and scale of China's manufacturing has pushed down the prices of many manufactured products relative to other goods and services.

*Susan Ariel Aaronson is an Associate Research Professor and 2009–2010 Policy Research Scholar, George Washington University Elliott School. This article is a shorter version of a chapter prepared for the forthcoming book, *China in the WTO: An Early Harvest* (Petros Mavroidis, ed.).*

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