General Agreement on Trade and Tariffs (GATT) and the North-South Divide

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Abstract

A number of conditions are required for the formation of trade groups. For the General Agreement on Tariffs and Trade (GATT), and its negotiators however, its aim was to establish an institution that would address the many trade concerns among members of the international community. Since its inception on January 1, 1948, GATT has given international commerce a new face. Prior to that time, however, international trade was scarcely controlled, but it has over the years been well structured and organized as a result of the introduction of a working system defined by general agreements. This has obviously led to tariff and non-tariff concessions, as well as the resolution of disputes between the parties concerned. There have been ministerial conferences in which professionals and committee meetings have been organized to address specific concerns. Since the establishment of GATT, there have been several discussions which includes; the "Kennedy round," "Tokyo round," and the "Uruguay round." Because of their particular development challenges, certain trade negotiating outcomes have exclusively affected poor nations. Regardless, this work shall examine GATT in relation to the North -South debacle.

Keywords: GATT, International Commerce, Tariffs, Poor nations, North-South.

Introduction

According to Amadeo (2021), the General Agreement on Tariffs and Trade (GATT) was the first Multilateral Free Trade Agreement ever established. It came into force as an agreement between 23 nations in 1948 and remained in force until 1995, when its membership rose to 128. It was birthed out of the Bretton Woods Agreement of 1947, which also resulted in the

establishment of the World Bank and the International Monetary Fund to coordinate global economic growth.

As negotiations continued at Bretton Woods, the meeting almost resulted in the formation of a third organization, the International Trade Organization (ITO), which had lofty goals. The 50 nations who began discussions intended it to be a United Nations organization that would develop regulations not only for trade but also for employment, commodity agreements, corporate practices, foreign direct investment, and services. The ITO charter was agreed upon in March 1948; however, it was not ratified by the United States Congress or any other nations' legislatures. The major fear was that the deal will impose undesirable domestic policy changes, particularly in the areas of wages and jobs. Despite this, the United States, the United Kingdom, and other allies remained committed to lowering tariffs on manufactured products. In the aftermath of the Depression-era tariff hikes, tariffs remained high. As the ITO charter was being debated, about 15 nations concentrated their efforts on drafting a basic trade deal. They promised to eliminate trade restrictions affecting $10 billion in commerce, or one-fifth of global trade. By October 30, 1947, a total of 23 nations signed the GATT agreement, paving the path for it to go into force on June 30, 1948. Unlike the ITO charter, the GATT did not require congressional ratification. This is because, legally, the GATT was a treaty negotiated under the terms of the United States Reciprocal Trade Act of 1934. Its major objective was to decrease trade tariffs even further. The Kennedy round included an Anti-Dumping Agreement in the mid-1960s. Other elements of trade were enhanced by the Tokyo round in the 1970s. The Uruguay Round, which ran from 1986 to 1994, and also resulted in the establishment of the World Trade Organization (Chand, 2019).

For every round of meetings, participating nations makes concessions, including a list of new tariff bindings—one for each imported commodity. Tariffs must be lower than they were previously in order to achieve trade liberalization. It is crucial to remember, however, that tariff bindings are not harmonized. Signatory nations do not have the same tariff rates at the end of a round. Some nations, particularly developing ones, have opted to keep their bound tariffs high but lower their real tariffs to a level below the bound rate.

General objectives of GATT

The general objectives of GATT according to Chand (2019) include the following:

- To promote full employment as well as a substantial and gradually increasing amount of real income and effective demand.
- Improving global production and exchange of products.
- To make maximum use of the world's resources.

- To guarantee that people's living conditions in member countries continue to improve.
- To settle disputes through dialogue within the framework of GATT.

Principles of GATT

As with every other institution, GATT has some basic principles guiding its operations. According to Vchyska (2016) the following constitutes the basic principles of GATT.

They include:

Non-discrimination

The basic concept of non-discrimination will prohibit protectionist measures and ensure that all member nations can trade freely. Its goal is to ensure that trading conditions are fair.

- . Most-Favored-Nation (MFN) Principle:
  This is the GATT's core concept, and its inclusion in Article 1 of the GATT 1947 is no coincidence. It stipulates that each GATT contracting party must give all other contracting parties with the same trading conditions as the most advantageous terms it offers to any of them, i.e., each contracting party must treat all contracting parties in the same manner as its "most-favoured nation."
  Reciprocity:
  The GATT promotes the concepts of "rights" and "obligations." Each contractual party has a right, such as MFN access to other trading partners' markets, as well as a responsibility to respond with MFN trade concessions. This is connected to the MFN idea in certain ways.
- Transparency
  A fundamental requirement for a transparent trading system is the necessity to unify the system of import protection, so that trade barriers may be decreased through the negotiating process. As a result, the GATT prohibited the use of quotas, save in some sectors such as agriculture, and pushed for “tariff-only” import regimes.
- Tariff Binding and Reduction
  Tariffs were the primary form of trade protection when the GATT was created, and early negotiations centered largely on tariff binding and reduction. The wording of the 1947 GATT spells out the contracting parties' responsibilities in this regard.

Achievements of GATT

The General Agreement on Trade and Tariffs (GATT) before its replacement by the WTO has made some remarkable achievements, which goes in accordance with its principles.

The achievements of GATT are as follows:

First among the achievements of the GATT is that it adapted its aims to changing world's conditions through the use of its three main principles by exploring the fundamental objectives of the promotion of free and multilateral trade, through the principles of transparency, reciprocity, and non-discrimination as required by the normative criterion.

- As more emphasis was placed on the reduction of tariffs barriers, GATT in one of its achievements, progressively reduced tariffs during each of the eight rounds of GATT, and this also took place through the principles of reciprocity, nondiscrimination, and transparency. GATT was very successful in all its reductions of tariffs, under the normative criterion.
- GATT as part of its success also made headway in the integration of the less developed countries (LDCs). Though developing countries, remained dissatisfied with the with the results of both the Kennedy and Tokyo Rounds, even though GATT has successfully adapted its objective to include the LDCs and achieved these objectives in the Tokyo Round. It was during the Uruguay Round that GATT achieved its objectives in relation to LDCs.
- Finally, during the Uruguay Round, GATT also adapted its objectives to meet the other changing conditions. These objectives were all successfully achieved, making GATT successful under the normative criterion.

Problems of GATT

Like every other institution, the GATT is faced with numerous challenges. Akpuru-Aja (2001) stressed that from inception, GATT was oriented to favour the countries of the West save for protests by the Soviet Union and members of the LDCs. The following according to the IAS Parliament (2017) constitutes the problems of GATT. They are:

- **Proliferation of Trade**

  The rapid proliferation of trade, particularly bi-lateral and regional free trade agreements world over, have caused for concern, as many argue that it lead to trade diversion instead of trade generation.
- **Regression**

  Due to regression, there have been public backlash against the North American Free Trade Agreement (NAFTA), which portrays trade liberalization as a zero-sum game.

- **Incessant Disagreement**
  Countries of the industrialized North and those of the less developed South, had agreed with the terms of the GATT. Its obsolescence gave rise to discrepancies with written laws and GATT practices.
- **Lack of Enforcement**
  The GATT tried to establish a global code of conduct in the field of trade, however, there was authority to enforce such laws, or monitor compliance among contracting parties.
- **Problems in Formulation of Rules**
  GATT members are diverse in nature, with a wide range of economic and political motivations, as well as distinct phases of development. These factors put together, made the establishment and enforcement of a standard general rule of conduct in the areas of trade, tariffs, and payment problematic.
- **Less Benefits for the LDCs**
  The majority of the GATT members fall into the categories of less developed countries (LDCs). These countries had received little or nothing from the GATT. There are currently increasingly restrictive trade agreements in place around the world. The commodity –to-commodity method has been shown to be harmful to LDCs interests.

This method complicates their production and export plans in the future. In addition, the GATT has not provided any compensation to the less developed countries for economic losses caused by wealthier countries acts.

- **Quantitative Trade Restrictions**
  GATT had clearly sealed the tariff system, but quantitative trade restrictions remained outside the GATT scope for a long time. As a result, industrialized countries have limitations like import quotas, export subsidies, voluntary export constraints, health and safety regulations and so on with impunity.
  Even while the GATT agreement of 1993 disapproves on the use of qualitative trade restrictions and the replacement of them with tariffs, it did not prevent contracting parties from using them.

GATT and the North-South Divide

The General Agreement on Trade and Tariffs (GATT) have been instrumental in the North-South discuss. Right from its inception, the countries of the South, otherwise referred to the Third World or Less Developed Countries (LDCs), had issues accepting the policies and conditionalities of GATT. They often argued that, it favoured more, the capitalist economies of the North. According to Akpuru-Aja (2001), the LDCs were not particularly

interested in the idea of GATT. This was because; they did not fancy the principles of GATT which overly represented the North's hegemony over the LDCs. However, of importance to this work is the role of GATT in the North-South divide. This is captured and expressed below.

First, GATT in one of its principles adopts a liberal trade policy which is targeted at increasing the income and output of contracting countries towards industrialization. Michalopoulos (2000) argued that the liberal policies of GATT to the countries in the South would not lead to industrialization and development simply because of prevailing patterns of international specialization, which limits countries of the South to tend towards specializing in the production and export of primary products and raw materials, of which are characterized by low prices and income elasticity of demand as well as considerable price violations, while depending on the imports of manufacture goods, especially for capital and intermediate inputs needed for investment and industrialization. Thus, countries of the South felt that a liberal trade policy would stymie the development of the countries of the global South and further widen the gap between the North and the South (Prebish, 1950).

Secondly, GATT through its principles of reciprocity gave each contracting party the right to access the market of other trading partners, which exposed the weaknesses of the countries of the South. This is because, countries of the South lacked the prerequisite to penetrate the markets of the more advanced North, leaving their own markets/economies to the manipulations of the North, which thus, further broaden the gap between the North and the South.

Again, the elimination of tariffs by GATT hampers the economies of the poor countries of the South. Bown and Irwin (2019) argued that, most countries of the underdeveloped world are heavily reliant on tariffs, in other to be able to fund the expenditures of government, and that the elimination of tariffs by GATT, tends to hurt the economies of the poorer nations thereby living them in a disadvantage position. By eliminating tariffs therefore, countries of the South otherwise the poor nations, are handicapped and made to become even more poor and vulnerable, ultimately, aiding the North to be more prosperous, while the South continue to wallow in penury.

Conclusion

The formation of GATT in the years that followed the end of the Great Depression was intended initially to aid the recovery of world economies. Haven kicked off successfully, and thus, promoting trade liberalization and tariff elimination, one would have thought

that GATT would accelerate the development of the underdeveloped parts of the world, the Third World (otherwise referred to as the global South). However, through deliberate monopolistic policies, the GATT like many other institutions styled after the capitalist oriented North, succeeded in widening the gap between the developed North and the underdeveloped/developing South. Though GATT later became the forerunner of the World Trade Organization (WTO), majority of its ill patterned policies, are still very much harmful to the countries of the South, hence, its role in the North-South divide.

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