

GATT – MON AMOUR (PAGES OF AN UNWRITTEN BOOK)

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Key words: Bretton Woods, GATT, rounds of negotiations, most favored nations treatment, custom union, U.E., free trade area, N.A.F.T.A., U.N.C.T.A.D., G.S.P., regionalism, tripolarisation, globalization, New - liberal institutionalism, New - medievalism, Inter – governmentalism.

Abstract: 60 years of GATT A good occasion to review its major contribution in the expansion of international trade, in economic development. The study is structured in three directions: GATT – O.M.C. and trade liberalization; GATT – O.M.C. and economic development; GATT – O.M.C. and regional economic groupings. The final part is dedicated to the problems of new international economic governance in a knowledge based society.

April 1944, Isalnita, Dolj, Romania

I wasn't nine years old yet. It was the third day of Easter when I, my parents and my four-year old sister went to our godparent's house bearing gifts: 30 Easter eggs, dyed with onion skins, 3 large egg-washed loaves of bread, sausages and ham, 2 round and golden cakes baked in special pans, 1 litre of Tesco wine, a demijohn of red wine, all home-made by my father from our vines on the Folea Hill and obviously a living hen, one of the largest in our back-yard. My godmother had prepared chicken soup soured with myrobalams, and hen steak fried in lard in a cooper pan.

After eating, I, my sister and my three cousins – Leana, Mita and Gheorghita – godparent's daughters, went out to play. It was hot and the sky was blue. Then, out of nowhere, we saw American airplanes flying above our village. There were tens of massive, deafening and scary airplanes coming back from bombardment to Bucharest or Ploiesti. Smaller escort airplanes were flying around them at great speed. From the entire crowd we saw one falling fast. It was attacked immediately by Messerschmitt German fighter planes which seem to have appeared out of the blue as well. Everything seemed like a dream. The falling bomber went towards Folea Hill crashing its four engines into the steep slope. Before the impact, there were several parachutes flying in the sky. Where the impact took place, the water literally sprang out of the earth. The plane's aluminum body spread around the large area of the hill. All of the villagers came and took bits and pieces from the plane, no one leaving the place of the impact empty handed. My father and I took home an aluminum plate out of which a gypsy made my first hair comb which became my lucky charm. The American pilots were friendly captured and transported by the Romanian soldiers to Craiova town where they were very well treated. Long waited Americans are in Romania !

July 1944, Bretton Woods, New Hampshire, United States of America

The 44 allied countries which were already know to have won World War II met for the United Nations Monetary and Financial Conference to create a new postwar economic environment and rebuild the international economic system. They have decided to create the International Monetary Fund (I.M.F.) for monetary relations, The International Bank for Reconstruction and Development (I.B.R.D.) for loans to finance

reconstruction and economic development and the World Trade Organization (W.T.O.) for commercial relations among countries. Romania was not invited to the conference being the enemy and also considered defeated even though on August 23, 1944 turned its weapons against Germany.

In 1947 the I.M.F. and I.B.R.D. were founded, the two great pylons of international economy. The status of the third necessary pylon was not approved by American Congress, its place being taken by the General Agreement of Tariffs and Trade (GATT) which incorporated the principles and mechanisms of international commercial negotiation found in the Havana Charta. Even though it did not have the status of an international organization from the very beginning, GATT, with the I.M.F. and I.B.R.D., had a crucial role in the world economic development through the liberalization of the trade of goods and services along until 1994 when W.T.O. was founded.

In the 60 years (1947-2007) of GATT – W.T.O. activity, international trade was and will still be governed by fundamental principles and long term norms of relationships between countries like the most favoured nation treatment and non - discrimination, using tariffs as the major economic instrument for protection of the national economy along with the complete elimination of quantitative restrictions as the administrative instrument. It also compiled the periodic international commercial negotiation rounds with the purpose of reciprocal reductions in tariffs, the prohibition and sanction of dumping and subventions for export and finally, preferential treatment for developing countries.

During this period, eight negotiation rounds were conducted, the most important being the Kennedy Round (1964-1967), Tokyo Round (1973-1979) and the Uruguay Round (1986-1994), during the latter being decided the founding of the WTO. As a result, the average level of tariffs in international trade fell substantially from 20-30% in 1947 to less than 4% today. At the same time, the quantitative restrictions were eliminated from international trade, their use being only permitted in exceptional situations approved by GATT.

As a result, international trade recorded a considerable growth, reaching \$14,472 billion (\$11,762 billion in exports of goods and \$2,710 billion in exports of services) compared to \$60 billion in 1948. In order to better understand this number, we recall that Romania's exports in 2006 reached around \$25 billion. Foreign investments, the second most important economic flow reached in 2006 \$1230 billion and the number of people working outside their home countries' borders reached 300 million.

In these 60 years, the international trade volume grew significantly faster than the average GDP. Thus, the average exports growth rate between 1950 and 2005 was approximately 6.2% and the GDP growth rate was 3.8%. The Exports/GDP ratio which indicates the degree of openness of an economy and the intensification of the globalization phenomenon also grew significantly.

GATT - WTO Negotiation Rounds

Name	Time period of participating countries	Objectives	Result
Geneva	1947, 23 countries	Reduction in taxes product by product	Concessions in 15,000 tariff positions
Annecy	1949, 33 countries	Reduction in taxes product by product	5000 tariff concessions and 9 new participating countries
Torquay	1950, 34 countries	Reduction in taxes product by product	8700 tariff concessions and 4 new participating countries
Geneva	1956, 22 countries	Reduction in taxes product by product	Modest reductions
Dillon Round	1960-1961, 45 countries	Reduction in taxes product by product	Change in 4400 concessions
Kennedy Round	1963-1967, 48 countries	Linear reduction in taxes, non-tariff measures	Reduction in taxes of 35%, 33,000 of tax concessions, customs evaluation and antidumping agreement
Tokyo Round	1973-1979, 99 countries	Linear reduction in taxes with exceptions, non-tariff measures	Reduction by 1/3 in taxes to 6% from the developed countries imports, conduit codes for all non-tariff measures
Uruguay Round	1986-1994, 47 countries	Linear and product by product reduction in taxes, non tariff measures for services	Reduction by 1/3 in taxes. Rules for agriculture and textiles. Creation of the WTO , new agreements for services (related intellectual property, investments)
Doha Round	2001- , 150 countries	Linear and product by product reduction in taxes, non tariff measures for services and the environment	Still developing

Reference: WTO: World Trade Report, 2007, p. 198

Export of goods/GDP ratio (%)

	1950	2005
Globally	5.5	20.5
Canada	19.3	39.7
USA	4.9	10.2
Brazil	3.9	8.9
Mexico	3.0	12.3
France	7.6	27.6
Germany	5.0	51.1
England	11.3	19.3
Italy	3.5	28.8
China	2.6	10.7
India	2.5	3.7
Japan	2.2	15.7

Reference: Maddison(2001): L'economie mondiale: une perspective millenaire WTO: World Trade Report (2007), p. 244

Obviously, the most powerful countries in the world record the largest volume of exports-imports of goods and services. Taking into consideration the exports and the import of goods only, the largest commercial countries are: USA – \$2,957 billion, Germany- \$2,022 billion, China- \$1,761 billion, Japan- \$1,225 billion, England- \$1,044 billion, France- 1,023 billion. Remarkable, on the one hand, is China's expansion in international trade which became the third big commercial power after the European Union as an entity and the United States and, on the other hand, is the relatively low status of Russia (\$496 billion).

Regarding the Exports/GDP ratio, the best performing countries are the small and medium ones: Belgium 112.6%, The Netherlands 77.7%, Austria 64.8%, Switzerland 59.3%, Norway 55.6%, and Finland 51.9%. For the sake of comparison, Romania's Exports/GDP ratio is only 20%.

The dynamism of international trade is strongly related to the relatively pacific environment in the world after WWII, reinforced by the fall of the Berlin wall, whose existence was strongly related to NATO and the vertical and horizontal consolidation of the European Union. In its turn, international trade strengthened the trust regarding collaboration between countries. Interrelationships and symbiosis between trade-reciprocal advantage and good understanding have been the foundation of the longest period of peace globally.

Economically speaking, the main factor was and continues to be technological improvement which led to the transition of human kind from the industrial age to the knowledge-based society. An increasingly bigger contribution has the expansion of transnational corporations which enforces the phenomenon of globalization. However, the constant liberalization obtained by GATT as a result of perseverance was crucial to the development of international trade.

The evolution of international trade which beneficially reached GATT's objective-minimum levels of unemployment through economic development- confirmed the validity of the classical, neoclassical, modern and contemporary free trade economic models beginning with the ones based on absolute and comparative advantage (A. Smith, D. Ricardo), continuing with those concerning the relative abundance of

resources (E. Hecksher- B. Ohlin) or mobile factor (P. Samuleson, R. Johnes) and, obviously, not finishing with standard terms of trade (P. Krugman, M. Obstfeld) or competitive advantage (M. Porter) models. All these models encourage international trade and see it as a factor of economic growth, its role being directly related to its degree of freedom. All countries benefit from it, some more than others. It became more and more obvious that from the separation of the producer (protectionism) and the consumer (free trade) the winners is population who has more possibilities to exercise the freedom to choose the best qualitative products at the best price regardless their origin. In this case, the producers' challenge is to offer the market both.

April-June 1964, Geneva, Switzerland, Palace of Nations

It was a crossroad time for GATT's and the world's evolution. The United Nations Conference for Trade and Development was institutionalized as an international organization with the purpose of formulating claims against developed countries. It has also been debated the idea of replacing GATT, which did not have the status of universal organization with UNCTAD as an international organization.

The conference debates were conducted in accordance with the report elaborated by the First Secretary of UNCTAD, the Argentinean Raul Prebisch. The report in its essence was meant to direct all measures towards the idea of "economic development through trade" approved by the developed countries compared to the idea of "financial aid for development" initially promoted by the developing countries.

During the preparation of Romania's participation at UNCTAD in 1964, a group of researchers from the Chamber of Commerce under the conciliation of Prof. Titus Cristuveanu and Alexandru Zamfir, both doctors in economics in famous British and American universities and with tacit approval by Prof. Mircea Malita, deputy minister of Foreign Affairs at that time, elaborated a study regarding Romania's status in the following debates, as a developed country - donor of financial aid and commercial preferences or as a developing country - beneficiary of such advantages. From the study regarding the level of economic development compared to developed and developing countries, it was obvious that Romania was not a developed country, but a developing one.

The act of making public Romania's status as a developing country contrary to that officially proclaimed as developed country must be approved by political leadership. The prime minister of that period, Gheorghe Maurer made a shocking statement "If we get something, we go to Geneva as a developing country, but you will never convince me we are not a developed country." In order to be recognized as a developing country, Romania adhered later to the Latin-American sub-group and along with this to the Group of "the 77."

Making Romania's status as a developing country official represented a key moment in the country's evolution in the international environment, benefiting from a special treatment compared to the other socialist countries. Economically, Romania was included in the countries that benefited from the Generalized System of Preferences offered by developed to developing countries having a result of hundreds of millions of dollars on Romanian exports to Western Europe, North America, Japan, Australia and New Zealand. At the same time, Romania became a member of the Protocol of "the 16" and the Global System of Trade Preferences which had more than 40 developing countries with the purpose of the development of reciprocal trade. Gradually, Romania started to become one of the leaders among developing countries.

Encouraged by the success they faced in UNCTAD, the ones involved engaged in new international openings. Prof. Alexandru Zamfir, along with the researchers, passed “the border” between GATT and the UN headquarters in Geneva establishing the first contacts with GATT. The event was published in the international publications as sensational news.

Important events followed: Romania’s adherence to GATT based on a specific project developed by a Romanian fellow at the GATT Course of commercial policy which was distributed to all member countries as study document, the adherence to the I.M.F. and the I.B.R.D., the signing of the first Romanian-American commercial agreement which stipulated the reciprocal extension of the most favoured treatment, the conclusion of “technical” protocols on product groups and of a general accord with the European community. All of these evolutions materialized in larger amounts of exports because of the lowest possible tax rates negotiated with GATT and of preferences, stand-by credits from the IMF and loans from the IBRD with reasonable interest, better conditions of access for agricultural products, textiles in European markets and others.

These beneficial evolutions were brutally interrupted by the sharp political decisions of that time - foreign economic advises being considered as interference in internal affairs - like the advanced payment of the foreign debt by forcing exports to the maximum and reducing imports to the minimum, ending the relationships with the IMF, unilateral giving up the most favoured nation treatment with the US, all with severe consequences on the standard of living of the population. This was followed by a period of semi-isolation which reached the peak when President Mitterand refused to make a programmed visit Romania. It was the beginning of the end of the autocratic regime.

As told above, the institutionalization of UNCTAD as an international organization generated a rivalry between GATT and UNCTAD. Some people even assumed the termination of GATT. The essence of the conflict was based on the two different ideologies supported by the two organizations: the market economy encouraged by GATT and the centrally-planned economy which the socialist countries tried to expand to the developing countries in the frame of UNCTAD. Gradually, the developing countries chose the path of market economy. They recognize the different functions for the two organizations: GATT - contract and UNCTAD - recommendation. More than that, it was “discovered” that GATT also had to deal with a “Fourth Part” to developing countries, including the idea of not asking from their part concessions like those offered by the developed countries. This led to the foundation of the Generalized System of Preferences. The conclusion was that the two organizations, GATT and UNCTAD, are far from being rivals, but, they could and should cooperate being complementary. In this spirit, the International Trade Center as the common ground between GATT and UNCTAD was set up. Finally, the two organisms better defined their roles: GATT - organism dealing with contractual arrangements, negotiation and regulation in international trade; UNCTAD - organism dealing with study, debate, solutions and recommendations regarding economic development. As a result, the majority of the world’s countries are members of GATT/WTO, the conflict being annihilated.

1957, Rome, Italy

The Treaty regarding the foundation of a Customs Union by the 6 countries that constituted the European Coal and Steel Community was signed. Ten years after GATT had been established, the article XXIV regarding the derogation of custom unions and

free trade areas from most favoured nations treatment (article I) became significant in practice.

I haven't found an answer yet to the question concerning the implementation of this derogatory article which constituted over the years the juridical basis of around 100 different preferential arrangements significantly eroding the principle of the most favoured nation treatment. To cover at that date the existence of a customs union between Belgium, the Netherlands and Luxembourg? Or, better yet, the negotiators of GATT's status deliberately created the possibility of the appearance of such an alliance in order to materialize the illuminist vision of the "United States of Europe" as a solution to eliminate wars in Europe and around the world. I think both articles I and XXIV represented an historic compromise with consequences difficult to determine between the American (multilateralism) and European (regionalism) visions. Was it beneficial? Only time can tell. As European citizens we could say YES, as long as Europe is not on the same competitive keel with the US. As citizens of the world we could say NO because it divided the world into economic groupings.

The most spectacular evolution both vertically and horizontally of a customs union is European Union: from the European Coal and Steel Community (1951- Treaty of Paris) to European Economic Community (1957- Treaty of Rome) to the Common Market (1986- Single European Act) to the Economic and Monetary Union (1992- Treaty of Maastricht) and to the European Union as a juridical entity (2007- Treaty of Lisbon). The number of member countries increased from 6 (France, Germany, Italy, the Netherlands, Belgium, Luxembourg) to 9 (+England, Denmark, Northern Ireland) to 12 (+Spain, Portugal, Greece) to 15 (+ Austria, Sweden, Finland), to 25(+ Poland, Hungary, The Czech Republic, Slovakia, Slovenia, Estonia, Lithuania, Latvia, Cyprus, Malta) to 27 (+ Romania and Bulgaria) with the possibility of reaching more than 30 in the coming period (+ Croatia, Albania, Serbia, other countries that were part of former Yugoslavia, and maybe Turkey). It has not yet been created the United States of Europe because the tentative Constitution was rejected by France, but the long term path is towards it.

Romania adhered to the European Union in its last phase of extension to the east in January 2007 because of its slow pace in getting through all the necessary steps to become a functional market economy but also because of the volatility of the institutional, especially juridical system in the battle with the low and high scale corruption. The adherence to the customs union, which was preceded by a period of free trade agreement, resulted in divergent effects in the long integration process to the EU: on the one hand, a significantly higher presence of foreign investors in Romania, which had positive consequences on production, especially in services and exports; on the other hand, massive emigration of the work force, generating a crisis of skilled labour in many sectors and a substantial increase in the level of imports leading to a dangerous current account deficit. Generally, Romanian citizens that suddenly became also European citizens are far from psychologically overcoming the dichotomy between the East and the West, between Latin origin and Orthodoxies.

A significant evolution was, also, encountered by the North American Free Trade Agreement (NAFTA) with the three big members: USA, Canada and Mexico as a second economic pole. This area was established in response to the evolution of the European Union. An extra reason for NAFTA could be its expansion towards the south, which could be tempting, but difficult to obtain mainly because of some Latin-American countries which, along with Cuba, are anti-USA.

Considered the missing pole of a tri-polarized world, the Asian pole took the form of an alliance of different countries from different areas: Asia (Japan, China, India etc), New Zealand, Australia, the USA, Canada, the EU which formed the Asia-Pacific Economic Cooperation (APEC). With the heterogeneous not only geographic composition, APEC does not have the possibility of becoming the third economic pole in the world. It is neither a customs union nor a free trade area. Consequently, the idea of an economic tri-polarization does not have a strong foundation and neither does the idea of bi-polarization (EU-NAFTA).

December 2004, Geneva, Switzerland

The Uruguay Round was finally over, after 8 years of negotiation. It was considered the most important round as a result of its findings. Tariffs for industrial products were lowered further by 1/3 reaching the average level of 3.5%. After difficult negotiations between the USA and the EU, the subsidies for agricultural products were “tariffed” and reduced by 25%. With respect to the service sector which counts for more than 25% of international trade, special measures were taken under the General Agreement on Tariffs and Services (GATS). Also, new rules and mechanisms concerning intellectual property and patents were negotiated under Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement.

The most important achievement of the Uruguay Round was considered the founding of the World Trade Organization which incorporated GATT, GATS, and TRIPS as permanent negotiation, conciliation forum with respect to international trade. There are 150 participating countries.

WTO planed on organizing another round, “The Millennium Round”. President Clinton, following President Kennedy tried to launch the new round in 2000 in Seattle but it was unsuccessful because of the anti globalization manifestations. After other failed tries, the Millennium Round was launched in 2001 in Doha.

The round is still developing having a broader range of domains being debated: further reduction in taxes and tariffs for industrial products, further reduction of the level of subsidies for agriculture, reduction and elimination of barriers to trade of services, implementation of new norms concerning intellectual property rights, new rules concerning investments, the environment, and work standards. Negotiations concerning agriculture continue to be problematic. Despite all these, the Doha Round is expected to end with a further step toward the liberalization of international trade benefitting all countries.

April 2008, Craiova, Romania

It is the Saturday before Easter. I went to the market for some last minute shopping and I met my cousin Gheorghita. She was selling radishes, green onions, garlic, and vegetables. I remembered how we used to go to their house to celebrate Easter. Meanwhile, my godparents died, my parents died as well. Their children are all alive: me, my sister, and my three cousins. We did not celebrate the way we used to when my godparents were alive, but I still sent my cousins gifts. I bought them each Heidi chocolate, Jacobs coffee, smocked meat, pineapple, and Heineken beer.

Offering the gifts to Gheorghita, I asked her whether she remember the year 1944, the American airplane that crashed on Folea Hill. She said she didn't remember anything and she burst into tears. She is 84 and her everyday life is a continual work in the garden: to dig, to seed, to weed, to trim, to wet hook, to pick, to bundle. She also

sells products in the local market: 8 radishes for 1 leu, 3 bunches of onions for 1 leu, 5 bunches of dill and parsley for 1 leu... (3,5 leu / €)

Time passed by so fast. It's been 65 years since the arrival of the Americans in Folea Hill, from the Bretton Woods Conference and since the end on the last (?) world war; 60 years from the founding of GATT, IBRD, and the IMF; over 50 years since the signing of the Treaty of Rome; almost 20 years since the fall of the Berlin Wall and the Romanian Revolution; 1 year, 4 months and 2 weeks since Romania became a member of the European Union.

So many things have changed in the world during this "short" period of time. The globe's population grew from 4 to 5 to over 6 billion people. From 60 to 2,000 to 15,000 billion dollars the world exports; from \$4 to \$12 to \$150 (?) per petroleum barrel; from \$35 to \$45 to \$1000 per fine ounce of gold; from 4 DM/\$ to 2 DM/\$ to .85 euro/\$. From the lamp to the transistor to the chip. From home telephone to cell phone to Internet. From Earth to the Moon to Mars. From industrial world to consumption world to the knowledge-based world. From absolute and comparative advantage to competitive advantage to strategic trade. From Ike to John to Bill and George W; from Joseph to Nikita, to Vladimir and Dimitri; from Konrad to Ludwig to Helmuth and Angela; from Charles to Francois to Jaques and Nicolas; from Winston to Margaret to Tony and Gordon; from Ghita, to Nicu to Nelu and Traian. From hot war to cold war to 9/11. From 6 to 15 to 27 members of the EU. From 23 to 50 to over 150 members of GATT/WTO. From economic nationalism to bilateralism to multilateralism and globalization. From the American pilots on Folea Hill to the adherence of Romania to NATO and the EU to Ford in Craiova with 300.000 units per year.

We are probably on the time threshold towards a new world, a much more integrated, globalise world. A world that becomes more and more conscious of the need of durable development and viable economy, a world where no country and no person will hope to have a good life while other have a bad life.

Economists and other researchers that exclude the idea of bi-polarization or tri-polarization assume the risk of designing a new system of world governance adjusted to the new conditions and challenges. In current discussions, three directions are mentioned. The first one called "The New Liberal-Institutionalism" which focuses on the power of the market and on the modernization of the actual pylons of international economics (GATT/WTO, IMF, and IBRD), including by elimination of democratic deficit, (for instance the relatively recent evolution of GATT/WTO). The second direction, the vaguer, called "The New Medievalism" is based on the idea of self governance (Kosovo ?) and an increased role of the international non-governmental organizations. Finally, the third direction called "Inter - governmentalism" which focuses on the function of the state and the relationships with resort ministers from all over the world (like agricultural ministers in EU ?).

Undoubtedly, each of these possible directions needs a much higher degree of debate. On the other hand, the adoption of one or the other direction depends on the countries and their interests. Whatever the solution, the role of GATT will remain vital representing by WTO a new product in the new international economic environment.

*Bon aniverssaire GATT,
Long live WTO !*

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