

General Agreement on Tariffs and Trade (GATT)

The General Agreement on Tariffs and Trade (GATT) was originally created by the Bretton Woods Conference as part of a larger plan for economic recovery after World War II. The GATT's main purpose was to reduce barriers to international trade. This was achieved through the reduction of tariff barriers, quantitative restrictions and subsidies on trade through a series of different agreements. The GATT was an agreement, not an organization. Originally, the GATT was supposed to become a full international organization like the World Bank or IMF called the International Trade Organization. However, the agreement was not ratified, so the GATT remained simply an agreement. The functions of the GATT have been replaced by the World Trade Organization.

What is the purpose of GATT? According to the Preamble of GATT, the objectives of the contracting parties include,

- raising standards of living
- ensuring full employment
- a large and steadily growing volume of real income and effective demand
- developing the full use of the resources of the world
- expanding the production and exchange of goods.

The Preamble also states the contracting parties' belief that "reciprocal and mutually advantageous arrangements directed to the substantial reduction in tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce" would contribute toward these goals. Importantly, "free trade" is not the stated objective of GATT.

The role of GATT in integrating developing countries into an open multilateral trading system is also of major consequence. The increasing participation of developing countries in the GATT trading system and the pragmatic support provided to them through the flexible application of certain rules helped developing countries to both expand and diversify their trade. It could now be said that a great number of these countries have already become full partners in the system as can be witnessed by their active participation in the Uruguay Round. The task of helping to integrate further the least-developed countries is one of the challenges that lies ahead in the WTO. Similarly, the full integration of countries with economies in transition into the trading system must be achieved in order to strengthen economic interdependence as a basis for greater prosperity and world peace.

These negotiations were critical to ensure the future health of the world economy and the trading system. The globalization of the world economy over the past decade has created a greater reliance than ever on an open multilateral trading system. Free trade has become the backbone of economic prosperity and development throughout the world. Partly as a result of this, there has been a shift in trade policy mechanisms from border measures to internal policy measures, substantially affecting the management of trade relations. The Uruguay Round sought to establish a new balance in rights and obligations among trading nations as a result of this phenomenon. We are gradually moving towards a global marketplace, and for that, we need a global system of rules for trade relations among partners in that market place.

The challenges that we face are therefore enormous. The only way back from this globalization in the world economy would be through depression and eventual chaos. We therefore have no choice but to move forward. In doing so, however, we must be sure to preserve to the highest extent possible the spirit and tradition of the GATT, which to a large extent was the key to its success.

World Trade Organization (WTO)

The World Trade Organization (WTO) is an international organization that establishes rules for international trade through consensus among its member states. It also resolves disputes between the members, which are all signatories to its set of trade agreements.

The WTO states that its aims are to increase international trade by promoting lower trade barriers and providing a platform for the negotiation of trade and to their business.

Principles of the trading system

The WTO discussions should follow these fundamental principles of trading.

1. A trading system should be free of discrimination in the sense that one country cannot privilege a particular trading partner above others within the system, nor can it discriminate against foreign products and services.
2. A trading system should tend toward more freedom, that is, toward fewer trade barriers (tariffs and non-tariff barriers).
3. A trading system should be predictable, with foreign companies and governments reassured that trade barriers will not be raised arbitrarily and that markets will remain open.
4. A trading system should tend toward greater competition.
5. A trading system should be more accommodating for less developed countries, giving them more time to adjust, greater flexibility, and more privileges.

Subjects of WTO

1. Agriculture
2. Services
3. Non-agriculture
4. Intellectual Property Rights
5. Trade investment, competition, policy, government procurement and trade facilities
6. Trade rules
7. Dispute settlements
8. Trade and environment
9. Trade, finance and debt
10. Trade and technology transfer
11. Electronic commerce

Role of WTO in Globalization

1. WTO plays an important role in the principle of trade without discrimination in the free market trade.
 - *Most-favoured-nation (MFN): treating other people equally.* Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.
2. *National treatment: Treating foreigners and locals equally.* Imported and locally-produced goods should be treated equally — at least after the foreign goods have entered the market.
3. *Freer trade - gradually, through negotiation* : Lowering trade barriers is one of the most obvious means of encouraging trade. The barriers concerned include customs duties (or tariffs) and measures such as import bans or quotas that restrict quantities selectively.
4. *Predictability - through binding and transparency:* With stability and predictability, investment is encouraged, jobs are created and consumers can fully enjoy the benefits of competition — choice and lower prices. The multilateral trading system is an attempt by governments to make the business environment stable and predictable.
5. *Promoting fair competition:* The WTO is sometimes described as a “free trade” institution, but that is not entirely accurate. The system does allow tariffs and, in limited circumstances, other forms of protection. More accurately, it is a system of rules dedicated to open, fair and undistorted competition.
6. *Encouraging development and economic reform:* The WTO system contributes to development. On the other hand, developing countries need flexibility in the time they take to implement the system’s agreements. 