Gatt Essay, Research Paper

General Agreement on and Trade (GATT), a provisional and largely voluntary agreement for the reduction of barriers to world trade, entered into by virtually all important trading nations is the major player in the US view of international business. Negotiated in 1947 at Geneva, Switzerland, among 23 countries, GATT came into force on Jan. 1, 1948. By 1983, 90 nations were full members of GATT, and 23 nations had limited membership. The signatories, as well as members under special or provisional terms, include the United States, the British Commonwealth countries, most countries of Western Europe, Eastern European nations, including Poland, Czechoslovakia, and Yugoslavia, and a number of Latin American, African, and Asian countries such as Japan, India, and Pakistan. These countries together account for more than 80 percent of the world’s trade. GATT agreements do not affect the political relations of participating countries, nor do they protect them from or other unfavorable trade treatment by fellow participating nations. Trade accords reached by ministers at GATT conferences are subject to final approval by their governments.

During the depression of the 1930’s, the United States pursued a high-policy (Hawley-Smoot Act of 1930) in the hope of increasing domestic production and employment. Cordell Hull, President Franklin D. Roosevelt’s secretary of state, recognized that high were hindering rather than helping recovery. His efforts to secure a reversal brought about the Trade Agreements Act of 1934, which delegated to the president the authority to make bilateral cutting agreements. The Hull program was extended periodically through the 1940’s. By the end of World War II it was evident that bilateral agreements had serious limitations. Imports were used as a threat against the use of by other countries, and concessions were withheld for fear that nonreciprocating nations might derive benefit from them. A multilateral approach was needed, and the United States took the initiative toward that end in the development of GATT.

Functions of GATT

GATT has three essential features: schedules of concessions; a code of principles and rules governing imports and exports; and periodic meetings that provide an forum for discussing trade problems (Focus, 1994).

Concessions may maintain or eliminate import duties and preferences. The schedules of concessions include more than 60,000 items, embracing the greatest part of all world trade. Negotiations begin bilaterally on a product-by-product basis and become multilateral as they are combined to form the schedule of concessions of all the participating nations.

The principles and rules of GATT safeguard the concessions and supplement them by relaxing such other barriers to trade as import fiscal taxes, and administrative regulations. GATT’s provisions affirm the most-favored-nation treatment by the US (the granting to all nations whatever terms are given to the most favored) in customs, and tax matters.

Advances in trade have resulted from periodic GATT meetings. The first meeting at Geneva in 1947-1948 was followed by talks at Annecy, France, in 1949; Torquay, England, in 1951; Geneva in 1956 and again from 1960 through 1962 and from 1964 through 1967. The sixth meeting (1964-1967), generally known as the Kennedy Round, produced an agreement among nearly 50 participating nations. The seventh meeting, held in Tokyo from 1973 through 1979, produced a similar agreement among its 99 participants. This so-called Tokyo Round also provided for special consideration on behalf of developing countries. In line with this goal, GATT had set up a Trade Center in 1964, which was operated after 1968 jointly with the UN Conference on Trade and Development (UNCTAD).

GATT and Trade

In 1948, total world trade was valued at just above $58 billion, with the United States accounting for 34 percent of free world trade (Yearbook, 1956). Japan’s imports exceeded exports by 160 percent. Today, world trade exceeds $4 trillion, the United States has a share of 12 percent, and Japan has a history of major trade surpluses. But one needs to look beyond the numbers to understand some of the economic changes that have occurred.

The Western, industrialized nations have been joined by new players Hong Kong, Singapore, Taiwan and South Korea, who are now industrialized nations in their own right. Other countries have been industrializing (in the Third World) while still others such as China are becoming big trade players. In addition, the Eastern Bloc, has been converted into emerging market economies, eager and ready to enter the world trade field.

Collaborative blocs are emerging among these countries. They range from loose agreements for general collaboration to well defined economic arrangements such as NAFTA and include political structures such as the European Union. These blocs change the way nations deal with each other; for example, negotiators now often talk to bloc representatives rather than to individual countries.

Exchange rates are another area where there has been change. Currency values used to be fixed; now they float. But a key component of exchange rate theory was always that they were the result of international currency demand and supply, which in turn was triggered largely by trade flows and interest rates. Today, financial flows exceed trade flows by vast amounts. For example, the total value of U.S. merchandise exports is about $550 billion per year. In contrast, the value of worldwide currency trades exceeds $1.5 trillion per day.

Major shifts in orientation are now in evidence with regard to trade. Historically, for example, the United States has been “Europe oriented” in its trade outlook. This is easily seen in the number of staffers in government departments who deal with Europe. However, since 1978 U.S. and Asia merchandise trade has exceeded U.S. and European trade, and the excess is growing. At the same time, this change has shifted the trade orientation of other nations as well. For example, the United States has already declined dramatically as an export destination for Asia’s exports. From a high of 38 percent the U.S. market now accounts for only 28 percent of Japanese exports. The United States is the recipient of only 23 percent of South Korea’s exports, rather than the 36 percent it was in the past. Overall, the exports of Asian countries to the United States average only about 23 percent of their total exports.

The new orientation in trade is accompanied by trade imbalances at unprecedented levels. Today, the United States is running an annual merchandise trade deficit of about $120 billion, with Japan accumulating a global surplus of about the same size. It is hard to remember that in 1972 President Nixon abandoned the gold standard because of a trade deficit of $2.5 billion.

Finally, there is a global recognition of new issues that are too large to be addressed successfully by any one country, yet too important to be ignored. Society is increasingly preoccupied by concerns such as air and water pollution, global warming, ecosystem maintenance, and new diseases. Patterns of long-term structural unemployment, systemic weaknesses in educational approaches, and growing safety and health care concerns are just a few other issues which are not local, but global in nature (Simai, 1994).

The Private Outlook

Change is not confined only to governments. At the global level many limits and beliefs about trade, have become fluid. Competition has increased drastically from expected and unexpected quarters. Not meeting the competition no longer results in slight decreases in market share, but in a threat of corporate extinction (Naisbitt, 1994). At the same time, the capability to stay ahead is getting to be more expensive, with costs of research and development rising, the speed and ease of technology transfer causes innovations to be open very quickly. Today, competitors can copy or improve innovative products, providing the creator often with only limited opportunity to recoup. An example illustrates the type of technological progress achieved. The current innovation period of computer chips is only 18 months. More than 70 percent of the sales of the data processing industry were the result of the sale of devices that did not exist only two years ago. Experts estimated that this percentage would rise to 80 percent by 1995 (U.S. Senate Committee 1994).

Advances in information and communications technology have transformed the ability of firms to select their inputs and their locations. These advances allow the separation between the origination and delivery of a product or service, thus offering firms new options for sourcing and foreign direct investment. While the traditional battle in the international market has been one for the right of establishment, the delocalization made possible by telecommunication advances may soon require a striving for the right to operations without establishment.

These advances also enable firms to carry out product adaptations and market targeting with great accuracy. However, the competition and consumer expectations often require such changes, whether they be cost effective or not.

Today, multinational corporations based have many more options for their organizational structure across borders. Joint ventures, value adding partnerships, strategic coalitions, strategic alliances, cooperative agreements, and industry consortia are only some examples of organizations that allow firms to avoid getting bigger (Naisbitt, 1994), yet enable them to exercise their marketing muscle and maximize their production capabilities across national boundaries. Overall, on the micro level, firms see more change, an increase in the speed of change, increasing risk, more capabilities, but also more demands.

MNCs

Among several broad topics, bargaining between multinational corporations (MNCs) and countries they happen to operate in has advanced the farthest in new trade idea development. Studies have documented how firms, industry and market conditions underlie governments’ and MNCs’ power to obtain their wanted conditions of market entry. They have also examined the causes of shifts in bargaining power over time: the dynamic that Preston called “the obsolescing bargain” (Preston and Windsor, 1992).

MNCs can evade state authority by transferring operations among countries, shopping for policies that suit their strategies. States can counterbalance these MNC capabilities by cooperating to pursue joint policy objectives (Preston and Windsor, 1992). For example, in provisions on trade-related investment measures (TRIMS) negotiated in the General Agreement on Tariffs and Trade (GATT) Uruguay round, governments agreed not to impose local content, export quota or import offset requirements on MNCs. But cooperation may not, on average, dominate either economic or political power as a motivation for governments’ policies toward MNCs. In addition to prosperity goals, states use MNCs to pursue international autonomy and security objectives (Kudrle and Lenway 1991).

The United States, for example, continues to use MNCs to implement embargoes against adversaries. Kobrin (1989) has argued that sanctions have lost effectiveness as U.S. policy, in part because host countries do not recognize U.S. claims of extraterritorial jurisdiction over its MNCs’ foreign affiliates. Sanctions have, however, gained greater currency as tools of multilateral diplomacy in instances such as the Persian Gulf Crisis of 1990-91. Unless all countries cooperate, sanctions reallocate market shares from participants’ firms to those of nonparticipants. But even when sanctions enjoy broad international support, they subordinate national prosperity interests to security goals by reducing economic activity.

Naturally everyone involved in this trade activity swears up and down that they are free traders, and that they have no intention of using these arguments to try to wall off the American economy from global competition. Naturally, everyone insists that their path is the only way to truly reciprocal trade. It is an on-going historical saga.

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