

## From GATT to WTO

Irina Gabriela Rădulescu\*, Bogdan Dumbrăvescu\*\*

\* Petroleum-Gas University of Ploiești, Bd. București 39, Ploiești  
e-mail: irina\_dragos@hotmail.com

\*\* Université Paris 12 Val-de-Marne, 61, Avenue du Général de Gaulle, 94010 Créteil, France  
e-mail: dumbravescu @univ-paris12.fr

### Abstract

*This article presents GATT, principles of commercial multilateralism (democratic principles), GATT evolution to WTO (causes that compromised GATT system, the importance of Uruguay Round), Doha Development Round 2001, the World Trade Organization's (WTO) Fifth Ministerial Conference in Cancun 2003, the Sixth WTO Ministerial Conference in Hong Kong 2005 (ministerial conferences are the WTO's highest decision-making body, meeting at least once every two years and providing political direction for the organization) and a study of proposal concerning the healthy basis for the relaunching of the international commerce.*

**Key words:** *GATT (General Agreement on Tariffs and Trade), FMI, IBRD (International Bank of Reconstruction and Development), Doha Development Round, Cancun Conference, G20, international changes liberalization*

### GATT

The end of the Second World War favored the edification, on United States of America initiative, of some institutions for the novel world order [1]:

- *International Monetary Fund (IMF)* - The work of the IMF is of three main types:
  - surveillance involves the monitoring of economic and financial developments, and the provision of policy advice, aimed especially at crisis-prevention;
  - the IMF lends to countries with balance of payments difficulties, to provide temporary financing and to support policies aimed at correcting the underlying problems; loans to low-income countries are also aimed especially at poverty reduction;
  - the IMF provides countries with technical assistance and training in its areas of expertise.

Supporting all three of these activities is IMF work in economic research and statistics.

- *International Bank of Reconstruction and Development (IBRD)* - The International Bank for Reconstruction and Development (IBRD) aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services.

Established in 1944 as the original institution of the World Bank Group, IBRD is structured like a cooperative that is owned and operated for the benefit of its 185 member countries.

- *International Trade Organization (ITO)*. The negotiations on the ITO Charter were successfully completed in Havana. The Charter provided for the establishment of the ITO, and set out the basic rules for international trade and other international economic matters.

The ITO Charter, however, never entered into force; while repeatedly submitted to the US Congress, it was never approved. The most usual argument against the new organization was that it would be involved into internal economic issues.

In the absence of an international organization for trade, countries turned, from the early fifties, to the only existing multilateral international institution for trade, the "GATT 1947" to handle problems concerning their trade relations.

Therefore, the GATT (*General Agreement on Tariffs and Trade*) would over the years "transform itself" into a de facto international organization. It was contemplated that the GATT would be applied for several years until the ITO came into force.

However, since the ITO was never brought into being, the GATT gradually became the focus for international governmental cooperation on trade matters.

GATT was deeply marked by the historical context of its appearance:

1. The thesis according to the idea that the protectionist escalate between the two world wars was the main cause of the Second World War, lead to the necessity of a *gradual markets opening tool*.
2. Despite their opposition of colonial pacts (that limited the trading expansionism), USA has to assure the sustainability of UK and France in their intention to reorganize commercial changes. This was realized in a flexible frame, tolerant for regional agreements (article XXIV, paragraph 2 of GATT).
3. In the same time with cold war starting, the European reconstruction and maintaining a powerful increase for USA lead to a regulation that allowed both the free change and possibilities to protect the internal market.

That's why GATT proposed an international commercial regime based on two principles, *a priori* contradictories:

- Liberalization of changes according to national interests;
- Respecting the discipline and international commercial cooperation.

## **GATT Evolution to WTO**

### **Brief history**

From its creation in 1947 till 1995 when it was integrated in WTO, GATT passed through eight rounds of negotiations:

- 1947 Geneva Round GATT creation – 23 countries participate

1947-1967 there were tariffs negotiations:

1949 Annecy Round;

1950-1951 Torquay Round;

1955-1956 Geneva Round;

1960-1961 "Dillon Round" Geneva - 26 participants;

1964-1967 “Kennedy Round” Geneva - 62 participants.

*They discussed:* non-agriculture tariffs, fourth part of GATT (trade and development), special derogations.

○ 1973-1979 Tokyo Round, Tokyo

*They discussed:* non-agriculture tariffs, anti-dumping measures, subventions, help measures, technical barriers for commerce, and problems of developing countries.

○ 1986-1994 Uruguay Round , Geneva

*They discussed:* non-agriculture tariffs, agriculture, services, intellectual property, regulations to settle disputes between countries, public markets, sanitary and phytosanitary measures, investments

○ From 2001 “Doha cycle”

*They discussed:* non-agriculture tariffs, agriculture, services, commerce and environment, commerce and concurrence, investments, changes facilities, regional agreements, special treatment for developing countries, commerce and technological transfer, commerce and assets [3].

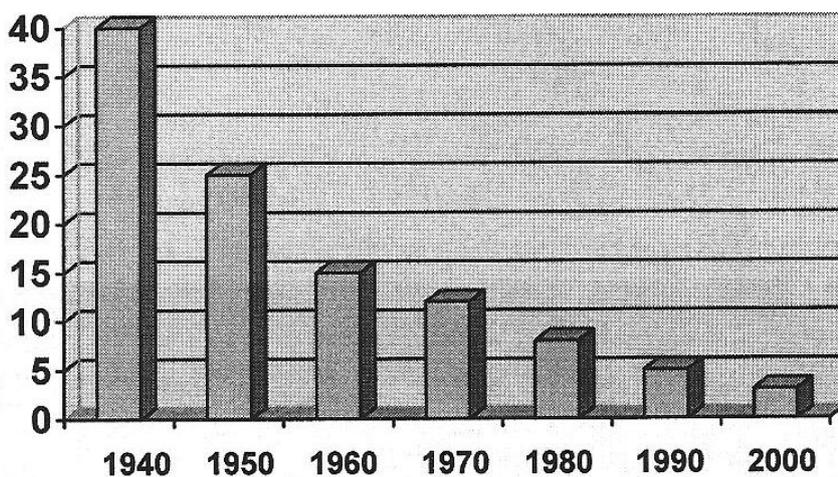
The number of participant countries as well as the duration of negotiations permanently increased.

## GATT Successes

To the very first beginning these negotiations focalized on custom duties applied to imported goods. As a negotiations consequence, custom duties for industrial products of developed countries decreased continuously, to 3% in 2000 (see Table 1 and Figure 1 [3]).

**Table 1.** Custom duties evolution over the value of industrial products for GATT and WTO members

Year	1940	1950	1960	1970	1980	1990	2000
Average level of custom duties	40	25	15	12	8	5	3



**Fig. 1.** Custom duties evolution

GATT reported success in the world trade development for his 47 years.

Continuously diminution of custom duties stimulated the increase of world trade that attend in 60's and 70's of last century high rates about 8% per year. Growing rhythm of world trade was always superior to production increase.

## **The Causes of GATT Multilateral Trading System Deterioration**

The success obtained by GATT with the diminution of custom duties together with a series of economic recessions in 80's, determined the governments to create other protection forms for the sectors that were confronted with high concurrence on the external markets.

High rates of unemployment and numerous crashes due o the crisis of those years, impel the Western Europe and North America governments to create new commercial barriers without taxes, to finalize bilateral agreements for merchandise selling avoiding the concurrence or to obtain subventions to maintain their advantageous positions in certain sectors (e.g. in the textile industry).

That's why the credibility and efficiency of GATT started to decrease.

In 90's, the trade became much more complex and important than in 50's. The mondialization started and services trading – not accepted by GATT rules – were very interesting for many countries. International investments increased, stimulating on their turn the trade with various services.

In agriculture appeared more weaknesses of multilateral trading. Commerce liberalization in ships growing failed. In 80's it was necessary an exemption from GATT rules in order to create an Agreement in textiles and clothes fields.

Institutional GATT structure was overfulfilled. It was any system to give solutions for the disputes between GATT members concerning the world trade.

All these reasons lead to the necessity of multilateral system reforming, and that happened at Uruguay Round when World Trade Organization was creating (WTO).

## **The Importance of Uruguay Round**

The *Uruguay Round* commenced in September 1986 and continued until April 1994. The round, based on the General Agreement on Tariffs and Trade (GATT) ministerial meeting in Geneva (1982), was launched in Punta del Este in Uruguay (hence the name), followed by negotiations in:

- Montreal;
- Geneva;
- Brussels;
- Washington, D.C.;
- Tokyo,

with the 20 agreements finally being signed in Marrakech - the Marrakesh Agreement. The Round transformed the GATT into the World Trade Organization.

The main *objectives* of the Uruguay Round were:

- to reduce agricultural subsidies;
- to put restrictions on foreign investment, and

- to begin the process of opening trade in services like banking and insurance.

They also wanted to draft a code to deal with copyright violation and other forms of intellectual property rights.

The importance of the issues raised by the WTO Agreement cannot be over-estimated. The completion of the Uruguay Round of negotiations has resulted in the creation of international agreements which themselves raise issues of great difficulty and importance in legal terms - issues of practical importance for international trade in goods and services and for the entire field of Intellectual Property Rights.

## What the Future Holds in Reserve

### The Round of the Millennium – Doha, 2001

The *Doha Development Round* is the current trade-negotiation round of the World Trade Organization (WTO) which commenced in November 2001. Its objective is to lower trade barriers around the world, which allows countries to increase trade globally.

As of 2008, talks have stalled over a divide on major issues, such as agriculture, industrial tariffs and non-tariff barriers, services, and trade remedies.

The most significant differences are between developed nations led by the European Union (EU), the United States (USA) and Japan and the major developing countries led and represented mainly by India, Brazil, China and South Africa. There is also considerable contention against and between the EU and the U.S. over their maintenance of agricultural subsidies—seen to operate effectively as trade barriers.

The Doha Round began with a ministerial-level meeting in Doha, Qatar in 2001.

The negotiations were intended to start at the Ministerial Conference of 1999 in Seattle, United States and be called the Millennium Round but due to several different events including large protests that broke outside the conference, the negotiations were never started. Due to the failures of the Millennium Round, it was decided that negotiations would not start again until the next Ministerial Conference in 2001 in Doha, Qatar.

Just months before the Doha Ministerial, the United States had been attacked by terrorists on September 11, 2001. Some government officials called for greater political cohesion and saw the trade negotiations as a means toward that end. Some officials thought that a new round of multilateral trade negotiations could help a world economy weakened by recession and terrorism-related uncertainty.

According to the WTO, the year 2001 showed “...the lowest growth in output in more than two decades,” and world trade contracted that year.

The Doha Round of WTO negotiations began in November 2001. The new round was instead launched at a ministerial conference in Doha, Qatar. The new trade agenda of the developed world was dubbed the Doha Development Agenda and, from there, all countries were committed to negotiations opening agricultural and manufacturing markets, as well as trade-in-services (GATS) negotiations and expanded intellectual property regulation (TRIPS).

The intent of the round, according to its proponents, was to make trade rules fairer for developing countries and according a special attention to:

- agriculture;
- textile
- footwear industries,

as well as to tariffs policies in these fields.

## **Cancun Conference**

In the frame of Doha cycle, negotiations are continuously at Geneva concerning different problems, but Interministerial Conference in Cancun in 2004 highlight an important step being a balance of the achievements.

### *1. Drugs and medications deal*

This problems is considered a symbol of the real will of developed countries to take into consideration the needs of developing countries – low costs drugs production to treat different epidemic (e.g. AIDS).

These medications are produces without license taxes by pharmaceutical laboratories, so by the violation of the agreement concerning the rights of the intellectual property negotiated in Uruguay Round.

At Doha conference it was foresaw to find a solution for intellectual property protection and public health till the end of 2002. But they adopted a very restrictive position, not accepting the extension of the epidemic definition and the possibility of an international trade of the medications produced under derogatory license. This position restrained countries less developed and without a pharmaceutical industry to procure these drugs.

At the end of august 2003, after negotiations between USA, South Africa Republic, Brazil, India and Kenya, a compromise was establish but it was so restrictive that it had to wait till 2007 ion order to allow a country to recourse at this procedure [2].

### *2. Divergences North-South*

Negotiations discussed between 2002 and Cancun Conference is the object of a Draft of ministerial text published at 31 of August 2003 that can't prove a precise result. This proves the real difficulties of multilateral trading negotiations cycle (like an arena where offers and liberalization demands confront).

In order to obtain an agreement, it is necessary that each member consider him a winner, so the supplemental opening of his markets to allow him more outlets and higher gains related to loss. Doha cycle is reduced to a permanent confrontation between agriculture liberalization from developing countries and industry and services liberalization of developed countries.

So the central problem of the cycle is the concordance between the exigencies of industrialized countries and development objective, in the context that developing countries are more and more skeptical over the consequences of world trade opening.

The debate at Cancun is likely to focus on whether negotiations on these *topics* within the WTO should begin at all:

*Competition:* The EU and U.S. vigorously support a multilateral competition framework, claiming that unfair business practices distort trade just as much as tariffs. Developing countries, and most vocally India, urge caution on this issue proposing that competition regimes should be the decision of each individual country and should implemented at the country's appropriate pace. Members are expected to come to a decision on modalities for negotiation on the issue of competition policy.

*Investment:* Members who welcome a multilateral agreement on investment stress the benefits of greater transparency and well-defined investor rights, while opponents voice concerns that an agreement would curtail a country's ability to implement national development and environment policies.

*Trade Facilitation:* Multilateral guidelines through the WTO and other international organizations already exist in this area. This sets trade facilitation apart from the other Singapore issues because it has already been accepted by the Member countries as a legitimate issue within the WTO framework. The central question is what regulation, specifically simplification and transparency of cross-border transportation of goods, will offer over and above existing requirements.

*Transparency in Government procurement:* The Agreement on Government Procurement has attempted to establish non-discrimination in government procurement decisions. Proponents of extending this agreement to all members say that increased transparency will help reduce corruption. The opposition fears that developing countries would suffer if foreign companies were put into direct competition with domestic firms.

The Singapore issues are an extremely important part of Cancun and they were interesting for southern countries that believed in an adequate policy in these fields mentioned above.

Developing countries wasn't interested in these problems, considering that they are limiting their national policy but also because this mean a raising of specialists to make them respect new regulations and procedures so the increasing of public expenses [6].

Southern countries informal group named G20 by an agreement between U.S.A. and E.U. in august 2003, announced their will to reduce their help for the agriculture without any engagement. As follow, Brazil and Argentina formed a coalition of 21 countries – five African, six Asiatic and ten from Latin America, to protect the interests of developing countries in the frame of Doha cycle.

Cancun Conference affirmed the will of southern countries to opposite to U.S.A. and E.U. agricultural policy and their sustaining for their national agriculture.

After the conference other countries formed groups such is G90 of African Union, countries from Africa, Caribbean and Pacific and other less developed countries.

This represents the first official manifestation of difficulties in Doha cycle and the first occasion of developing countries and undeveloped countries to organize and say their opinion in problems concerning them.

## **The Hong Kong Conference – a New Negotiations Framework**

After the deadlock of negotiations from September 2003, by the USA initiative, five great actors of Doha cycle – U.S.A., European Union, Australia, Brazil and India, has reunited at Geneva in July 2004 and they reached to an agreement.

The Doha program had been revised and they abandoned the subjects from Singapore, excepting easy trade and they marked on two main *subjects*:

- agriculture dossier;
- the access to the markets of industrial products and services.

Negotiations extended over the 1<sup>st</sup> of January 2005 and it was decided a new ministerial conference in Hong Kong for December 2005.

Although, the things went slowly and only in October 2005, U.S.A. and European Union announced to the developing and un-developing countries the main criteria for the agriculture dossier:

- internal subventions;
- expert assistance;

- access at markets.

These looked insufficient, especially because of exigencies of European Union who demanded southern countries widened access for the industrial field of E.U.

The negotiations for other dossiers were released waiting for the Hong Kong Conference.

Unlike Cancun, Hong Kong could be considered a success and a great step forward to approve a new program.

The essential part was the publishing of a statement that contain 59 paragraphs and 6 annexes adopted at the 18<sup>th</sup> of December, who beyond the technical sides emphasize a consensus to reach at a positive result.

The nongovernmental organization (NGO) “Oxfam” that execute expertise for developing and undeveloped countries, consider that industrialized countries depleted the Doha program from the content, bereaving it by an essential feature: the development. It they resume analyzes over the two essential domains, agriculture and the access at markets for industrial products and services, “Oxfam” consider that the agreement registers limited progress for the first domain, unlike the second:

- It is forecasting the disappearance of subventions for exports by the end of 2013, but these subventions correspond to the most inconsistent part of the support (only 3.6 % of the European support for agriculture).
- The undeveloped countries obtain measures that protect the poor peasants, but it appears important limitations in the calendar foreseen for the end of negotiations (31 July 2006), and there is no guarantee regarding the increased access on the markets from the North countries of the exports originated in the South countries.

For the industry and services, the situation is yet worst:

- In the first case, developed countries demand to developing countries to decrease the customs duties – to that they previously consented. Because the customs of developing countries are higher, the equal percentage decreasing affects more the budget of these countries.
- In the second case, the Northern countries, desire firmly commitment from developing countries concerning the minimum number of fields submissive to liberalization and not there free choice.

It understands that the agreement of the developing and undeveloped countries could not be obtained in such conditions, only following pressure practiced by Brazil and India – historical defenders of the both countries in GATT – which have adopted a much closer position of the industrialized countries, succeeding to influence other members of group [7]. In addition, undeveloped countries are not satisfied by the expertise necessary for negotiations, they don't have resources to have a permanent representation at WTO, 22 of these couldn't afford a permanent delegation at Geneva.

## **2006-2007 - A Relative Lock-Up. What Solutions Are Foreseen to Raise the Multilateral World Trade?**

Because no significant result could be achieved, the negotiations have been suspended to July 2006 – January 2007. The new dead-line for the closing of Doha cycle was then missed.

The main cause was the refuse of U.S.A. to limit the internal support of agriculture at the level of 15 billion USD a year, limiting the advantage of American agriculture workers on the world market.

In return, the developing countries and the undeveloped countries haven't accepted any limit of their customs rights over the industrial products.

The negotiations have been resumed in January 2007. But, due to the obstructions met during the discussions with all members, it has been decided new restrained discussion, this time quadripartite, between U.S.A., European Union, Brazil and India (New Quad). These took place in April and June 2007, but they failed.

In July 2007 it was registered a new attempt for renegotiations. The initiative came from presidents of the committees of negotiations – for the agricultural domain and for access to markets for industrial products and services – that made public the draft of an important text with compromise proposes, acceptable at first sight. This text is a new base of discussions for the negotiations which should have been resumed in September 2007.

The considerable difficulties met in the rewinding of the Doha cycle determined different analysts to promote the problem of a WTO reform.

There are general reasons, in particular reasons that led to introducing this problem reformulation.

Among the general reasons, we mention the problems of the regulation mechanism between the organizations members.

Another principle in discussion is that of the unanimous decision of WTO (by consensus), each member having an equal part. This equality is fictive, because of the huge differences of expertise of the members and because of the fact that not all of the members of the undeveloped countries are capable to maintain a permanent representation in Geneva.

## Conclusions

In the end, we have to point out the fact than unlike the cycle, in which most decisions were of institutional type, the Doha cycle doesn't concern only liberalization of the international exchanges, with a special concern for undeveloped and emerging countries.

It appears that in this field things are more complicated, the result obtained, until now, are only being aware of these countries of their role in WTO and of the will of not accepting an agreement that serves there own interests.

## References

1. Rainelli, M. - Organisation Mondiale du Commerce, Paris, *La Découverte*, coll. "Repères", 8-ème éd., 2007
2. Rădulescu, I.G. - *Integrarea economică regională*, Editura Universității Petrol-Gaze din Ploiești, 2007
3. Stiglitz J.E., Charlton, A. - *Pour un commerce mondial plus juste*, Edition Fayard, Paris, 2007
4. \*\*\* *Cahiers français* No. 341, Novembre-Décembre, 2007, Mondialisation et Commerce International
5. \*\*\* [www.focusweb.org](http://www.focusweb.org)
6. \*\*\* [www.oxfam.org](http://www.oxfam.org)
7. \*\*\* [www.wto.org](http://www.wto.org)

## De la GATT la OMC

### Rezumat

*In acest articol sunt prezentate GATT, principiile comerțului multilateral (principiile democratice), evoluția de la GATT la OMC (cauzele ce au compromis sistemul GATT, importanța runde Uruguay), Runda de dezvoltare Doha 2001, Organizația Mondială a Comerțului (OMC), a V-a Conferință ministerială de la Cancun 2003, a VI-a Conferință ministerială a OMC din Hong Kong 2005 (conferințele ministeriale ale OMC sunt forurile supreme de decizie și au loc cel puțin o dată la 2 ani, elaborând direcțiile politice ale organizației) și un studiu care propune bazele relansării comerțului internațional.*