

## Multilateralism

Strongly influenced by the perception that restricted commerce and preferences in trade relations had contributed to the dramatic economic downturn of the 1930s and the subsequent outbreak of war, post-war discussions concerning the international economic order aspired to the establishment of a liberal and non-discriminatory multilateral trade system.

The Bretton Woods Conference of 1944 proposed the creation of a multilateral institution to oversee International Commerce, the International Trade Organization (ITO). The ITO was expected to work together with the World Bank and the International Monetary Fund to enabling international economic cooperation and ensure the smooth functioning of the international economy. However, ratification by national legislatures proved difficult to obtain (most notably in the United States) and the ITO was aborted. Instead, the multilateral trade system in the post-war period was largely based on the General Agreement on Tariffs and Trade (GATT) – a provisional treaty signed in 1947 by 23 founding member countries – under which states undertook to adhere to specific rules and principles relating to goods trade and to participate in periodic rounds of multilateral trade negotiations to lower trade barriers.

The articles of agreement of the GATT articulated its guiding principles, the most central of which was the principle of *non-discrimination* among members. The non-discrimination rule was itself expressed in the joint principles of *most-favored-nation*, implying that no member country may be discriminated against and any special favor granted to one member must be granted to all (Articles I and II) and *national treatment* which required that imported and locally produced goods will be treated the same after the imports have entered the home market (Article III). Predictability in trade policy, to be achieved through binding commitments and the use of simple and transparent policies (tariffs rather than non-tariff measures, for instance) that are publicly disclosed,

was an additional guiding principle underlying the GATT (Article X). To protect industries against a sudden surge of imports, the GATT permitted countries to take “safeguard” actions that are temporary, non-discriminatory and transparent (Article XIX). The GATT also allowed for “anti-dumping” duties to be imposed on imports that were being sold at prices lower than costs or lower than prices in the exporters home market (Article VI). Finally, the GATT allowed “countervailing duties” to be imposed on imports from suppliers who had been unfairly subsidized by their governments (Article VI).

In its early years, the GATT achieved impressive successes in lowering trade barriers and increasing the volume of international goods trade. During the 1950s and 1960s extensive tariff reductions led to growth in world trade at an average of about 8 percent a year. Membership in the GATT also increased rapidly. Over 60 countries took part in the Kennedy round of trade negotiations (1964-1967) and over a hundred members participated in the Tokyo round (1973-1979). The Tokyo round reduced average industrial tariffs to below five percent and also made a modest attempt at tackling the issue of non-tariff barriers to trade.

Despite its many achievements, the multilateral trade system was not an un-mitigated success. The evident weaknesses of the GATT’s dispute settlement mechanisms, the exclusion of important sectors of the economy (agriculture, textiles and the increasingly important services sector) from its ambit and the proliferating use of anti-dumping and countervailing duties enabled many countries to effectively sidestep the intended liberalization and the non-discriminatory discipline of the GATT agreements. Furthermore, developing countries under the GATT “benefited” from *special and differential status* (Article XVIII), which gave them considerable leeway in using trade barriers to protect their “infant industries” and balance of payments – exceptions that allowed many developing countries to maintain egregiously

protectionist regimes. By the 1980s, numerous calls were being heard for extension, reinforcement and fundamental reform of the multilateral trade system.

The Uruguay Round of trade negotiations (1986-1994) created the World Trade Organization (WTO). The GATT was folded into the WTO's mandate. The Uruguay round also gave the WTO two other agreements to oversee: the General Agreements on Trade in Services (GATS), which achieved some (limited) market access commitments in this area from WTO members but broader agreement on modalities for future negotiations on service liberalization, and the agreement on Trade Related Intellectual Property Rights (TRIPS), which obliged WTO members to agree to grant minimum periods of protection to copyrights, patents and trademarks. Important changes to strengthen the dispute settlement process and to make it more efficient were also implemented. The Uruguay round finally included Agriculture and Textiles in the GATT. Although only limited progress was made in Agriculture, the Uruguay round achieved a substantial (phased-in) liberalization of trade in textiles. Many developing countries were actively involved in the multilateral negotiations, making important "market access offers" by reducing tariff protection on manufactures and in the areas such as "trade in services and trade in agriculture that were new to the liberalization process" (Martin and Winters (1996)).

The greater reach achieved by Uruguay round in the 1990s was offset, however, by the rapid increase of preferential trade treaties among WTO members. In a significant derogation of its principle of non-discrimination, the GATT permits countries to enter into preferential trade agreements (PTAs) in the form of *free trade areas* (FTAs) and *customs unions* (CUs). While relatively few agreements were inked in the GATT's early years, hundreds were signed in the years following the Uruguay Round. While PTAs are subject to the requirement that trade restrictions imposed by the members of the preferential agreement on non-member countries will not be more restrictive than before and a further restriction (itself controversial) that the member countries

eliminate barriers to “substantially” all trade between themselves, violations of these restrictions abound — with the WTO showing limited enforcement ability. The proliferation of such preferential treaties among WTO members in recent years has led to concerns regarding the future shape of the world trading system and calls to strengthen its non-discriminatory disciplines.

Economic analysis of the structure of the multilateral trade system has taken varied approaches. Many researchers have analyzed the role of the GATT as a forum in which efficiency-improving *reciprocal* reductions of trade barriers, improving on the unilateral “non-cooperative” choices of countries, are achieved (Johnson (1953-54), Dixit (1987) and Bagwell and Staiger (1998)). The GATT’s role as deriving from its ability to multilaterally discipline any errant members, has been analyzed by Maggi (1999). Preferential trade agreements have been discussed in a substantial and growing literature. The ambiguous welfare effects of PTAs were demonstrated in a classic analysis by Viner (1950). A necessarily welfare improving design for Customs Unions that circumvents these ambiguities has been provided by Kemp and Wan (1976) and Ohyama (1972) and a corresponding design for FTAs has been provided by Panagariya and Krishna (2002). The potentially disruptive effects of preferential trade on the multilateral trade system have been analyzed by Krishna (1998) and Levy (1997).

Ever expanding membership (currently over 140 countries) and the increasing range of international economic activity under its jurisdiction mark the success of the GATT/WTO. The latest round of trade talks was launched in Doha, Qatar, in 2001, placing a special emphasis on agricultural trade and developing countries (the *Doha Development Agenda*) however stands threatened by substantial gaps in negotiating positions between the major trading nations over agricultural trade policy. Comprehensive multilateral liberalization of trade in services is also yet to be achieved. Simultaneously, the rapid proliferation of preferential treaties has led to systematic

erosion of the WTOs non-discriminatory disciplines. These remain central challenges for the future of the multilateral trade system.

## References

Bagwell, K and Staiger, R., 1999, "An Economic Theory of GATT," *American Economic Review*, 89, 1: 215-248

Dixit, A., 1987, "Strategic Aspects of Trade Policy," in Truman F. Bewley, ed., *Advances in Economic Theory: Fifth World Congress*, Cambridge University Press: New York

Johnson, H. G., 1953-54, "Optimum Tariffs and Retaliation," *Review of Economic Studies*, 1, 2: 142-53

Kemp, M., and Henry, W., 1976, "An Elementary Proposition Concerning The Formation Of Customs Unions," *Journal of International Economics*, 6, 1: 95-8

Krishna, P., 1998, "Regionalism and Multilateralism: A Political Economy Approach," *Quarterly Journal of Economics*, 113, 1: 227-250

Levy, P., 1997, "A Political Economic Analysis of Free Trade Arrangements," *American Economic Review*, 87, 4: 506-519

Maggi, G., 1999, "The Role of Multilateral Institutions in International Trade Cooperation," *American Economic Review*, 89, 1: 190-214

Martin, W., and Winters, A., 1996, *The Uruguay Round and Developing Countries*, Cambridge University Press, Cambridge UK

Ohyama, M., 1972, "Trade and Welfare in General Equilibrium," *Keio Economic Studies*, 9: 37-73

Panagariya, A., and Krishna, P., 2002, "On Necessarily Welfare-Enhancing Free Trade Areas," *Journal of International Economics*, 57:353-367