

The failure of gatt - analysis



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The world economic set up has been changing over years. The systems of trading have been experiencing radical changes due to the dynamism of the world economy. The today's' currency in the various countries did not just find itself there. The currency has evolved from a mere exchange of commodities for commodities to paper and coinage money and today we have representative fraction being used as a means of exchange. Services have also been exchanged over time and this has complicated trade among nations. The underlying challenge of barter trade has been the fact that sometimes there is lack of double coincidence of wants. More so commodities lack the standard measure of value and even some commodities cannot be divided in to smaller units.

The Bretton Wood system was thus formed by the member states in the early 1940s whose main objective to bring a more solid monetary and economic system. The United States had dominated the world economy due to the fact that the dollar would always be exchanged for gold. The led to an economic isolation of the rest of the world and therefore an agreement had to be struck since there was a depression in the economy. The Great Depression led to a serious flop in the stock prices in the late 1920s and was in existence up to the mid-1940s. The world started experiencing a drop in taxes, personal income as well as profits from commodities. These effects lasted until mid-1930s in some countries. (Robbins, 1934).

This depression was even experienced in Africa where the demand for agricultural and mineral products fell drastically. France, Canada, Portugal, Netherlands among others were adversely affected by the depression. In Britain unemployment rates rose too high that revenues for the government

dropped a great deal and this led to countries need to form agreements which would curb the economic doom that was in place. (Schultz et al, 1999).

In 1944 the United Nations Monetary and Financial Conference was held in Bretton Woods; New Hampshire where the forty four member states met and discussed on the formation of an agreement to regulate trade in both monetary and other economic policies. They established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). The latter is the World Bank today meaning that there has been success over years with these agreements. There has been a lot of integration and cooperation among countries since the World War II leading to stabilization and reconstruction of the various countries affected by the Great Depression that preceded the war. The World Bank led to the rejuvenation of many countries in all the corners of the world through funding and establishment of fiscal policies to curb inflation and devaluation of currency. This also brought about free trade and convertibility of the US Dollar to gold where a fixed exchange rate was also introduced in the world economy. (Dormael, 1978).

Discussion

The General Agreement on Trade and Tariffs (GATT) was agreed in the year 1944 during the United Nations Conference on Trade and Employment. Its main objective was to establish a multilateral agreement that would regulate international trade. The agreement was later signed in 1948 and it lasted until 1993 when it was later changed to World Trade Organization (WTO). It worked with the aim of eliminating barriers and regulating tariffs that were a hindrance to international trade amongst countries. The World trade

Organization was formed by the GATT members (75) who have of late increased in number to form one hundred and fifty seven member countries. Countries like Russia which had refused to join such agreements have of late become members of the World Trade Organization. (Zeiler et al, 1996).

Due to the Keynesian economic system that advocates the mixed economy then the socialistic and capitalistic economies have been in place despite the challenge that had been brought by the United States to only have a capitalistic economy. Economic evolutions have taken place in the world with the United States accepting the Keynesian economy. This economic system had been abolished by President Roosevelt leading to a hick up in the trade where free trade became a problem between the United States and the other countries. (McKenzie et al, 2008).

The World Trade Organization brought about the Bretton Woods-GATT system where the member states agreed to eliminate difficulties experienced as nations tried to trade internationally. The world currency improved since 1940s as a result of the formation of trading blocs which has encouraged counter trade as well as reciprocal trading. The Bretton Woods-GATT system was founded by the International Monetary Fund, The World Bank and the General Agreement on Trade and Tariffs. The three were targeting to form an open global market(s) by establishing free trade areas and giving up capitalism that existed in some countries. (Hobsbawm, 1994).

The World Trade Organization has expanded from trading with goods to services and intellectual property leading to a drift in the international trade. In Uruguay the economic conditions have changed where the agricultural

products for the country are freely traded leading to an increase in the Gross Domestic Product and thus the per capita income and the rate of employment consequently increased. The tariffs also reduced to by 40 percent marking a positive improvement in the national economy. Other countries that have benefitted from such agreements include Turkey where quotas for their products have been removed and subsidization increased. Moreover the tariffs have reduced by a remarkable figure of 25 percent over the recent past. (Thomas, 1999).

The structure of the World Trade Organization has attracted many member countries as opposed to the General Agreement of Trade and Tariffs which had fewer members. This due to the fact that the former has a membership structure while the latter had a special secretariat which limited membership. The rules in the WTO led to many countries adopting a better way of managing the member countries.

The World Trade organization is stricter to time than the General Agreement on Trade and Tariffs therefore countries must comply with the rules. Also the mechanisms of dispute resolution are well elaborated in the WTO agreement. (Schott, 1994. pg 125-129).

The marked improvement in currency convertibility, economic cooperation and international liquidity has been a milestone in multilateral trade and the strengthening of the world economy. International organizations like the World Bank and the International Monetary Fund have for sure brought about cross national development by bringing about sound economic systems by bringing about liberalization and globalization of trade. (Zeiler et al, 1999).

Challenges

Despite the achievements discussed above there have been challenges facing these agreements leading to a fall in the way the world economy and the international trade have been operating. Some of the member countries have recently withdrawn their cooperation and this has proved to be a serious hurdle in the world trade. More so inflation in some countries has led to hitches in terms of foreign currency exchange thereby resulting in trade difficulties in pricing and costs.

There have been several critics challenging World Trade Organization alleging that the agreement has denied the member countries their sovereignty and this to some extent has reduced cooperation and laxity in endorsing of the rules. It has emerged that some countries are just members simply to benefit from the international trade and not members in spirit. (Schott, 1994).

The gap between the rich and the poor is continuously growing and this has brought difficulties in the current economy. This has resulted in the World Trade Organization becoming unable to regulate the provisions of the agreements as well as the standardization of the same. Bringing about uniformity of procedures has become difficult since there exists a discrepancy in the personal incomes among individuals. (Financial times, 1995).

The globalization of the capital and money markets as well as currency has also become a serious problem in terms of management and control. Such problems could not be anticipated by the founders and therefore they have

just appeared leading to hurdles and difficulties in administration. Even in the third world countries like Congo, liberalization of the economy is continuously taking place creating complexities in the World Trade Organization. (Hobsbawm, 1994).

The environment has also changed with various negative trends happening especially pollution, deforestation, decline of the biodiversity, O Zone layer depletion among others. All these have created problems in the way these agreements operate and thus the agreements becoming a difficulty to handle and consequently leading to the weakening of the same. These problems need to be addressed for the success of any trade agreement.

Another hindrance to the success of General Agreement on Trade and Tariffs and World Trade Organization agreement the uncontrolled rise in the number of multinational corporations which unregulated. The increase in their numbers has been an impediment in controlling them as well as managing of these multinationals at the international level. (Robert, 1993).

The government has also been unable to manage and control the high numbers of the emerging companies and firms and therefore this is a great weakness as far as the success of the agreements is concerned. The domestic policies have proved to be hard to manage due to the changes in the international policies as well as domestic ones which are supposed to be compatible with the standard policies provided for in the agreements.

Different countries have had conflicts of all sorts especially China and the European community have led to a decline in the way the World Trade Organization is operating. The success of any bloc and international

agreement is dependent on the political environment and the surrounding nation's tension-free situation.

The World Trade Organization unlike other international bodies has not formed a body that will be able to enact fines, enforce sanctions or penalties on the members who do not adhere strictly to the provisions of the agreement. Due to this the agreement appears to be faced with the problem of containing the behavior of the member states. This has consequently made the recent signings of the new member states to be a burden on the founders therefore adversely affecting success. The members who are caught with misconduct may not be expelled from the agreement and this has hardened the regulation of the member countries. The Dispute Settlement Mechanism has been in use by the member states. However some countries feel that there is discrimination of the way disputes are settled especially with the United States thus soiling the agreement's provisions on settlement of disputes and laxity on the same. (Croley et al, 1996).

The complexity and the size of the upcoming arrangements have also led to regionalism hampering multilateral trade liberalization. The increase in the number of custom regulations has also made the whole thing complex and this has led to an increase in the costs for both member and non-member countries. (Graham et al, 1996).

Conclusion

From the above discussion it is clear that there have been challenges in the World Trade Organization and the General Agreement on Trade and Tariffs

and this has led to a hurdle in ensuring a successful free world trade. The upcoming member countries need to be strictly shown adherence to the laid down policies and procedures by the agreement.

It is of the essence to note that there should be standardization of the admission of new members since without this then there could be a problem due to the many numbers of the member states. At the same time more bodies need to be established to control the way the member countries operate and how they adhere to the provisions. The current procedures have proved to be very cumbersome in nature and encourage a lot of duplication of procedures. (Esty, 1994). The managing secretariat needs to be enlarged due to the increasing number of member states and the complexities of the modern economic world.