

This birth to the twin  
financial institution of



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This policy of trade not only led to heavy shrinkage of the volume of world trade but also to a severe decline in national income and employment levels all round. The great depression of 1930s was product of the remains of trade policies followed in the name of economic nationalism. The depression further accentuated economies of the world. There by leading to further deepening of the depression.

The specter of the depression haunted the allies at the end of the war which they would like to banish at any cost. An organised reordering of international trade in the post war era was an imperative if that goal was to be achieved. Hence, the proposal to set up the International Trade Organization and international institution which would ensure orderliness to the free flow trade among nations, WTO was to be part of institutions framework consisting International Monetary Fund and the International Bank of Reconstruction and Development.

According to the plan World Bank would guide and regulate international trade, financing reconstruction and development of world economies and IMF would take care of the matters like determination of exchange of value of a currency in world's other currencies. The Bretton woods conference in 1945 gave birth to the twin financial institution of the IMF and the World Bank. But South American opposition prevented establishment of this all important institution. It is after almost a lapse of 50 years that the vacuum existing was filled and World Trade Organization came into existence from Jan 1, 1995. This is not a sudden development. Nor is it a result of any backtracking on the part of USA to its approach to the subject. Rather, it is the outcome of fifty year working of the system of General Agreement that the USA had

suggested in 1945 as an alternative to the proposed WTO. GATT (General Agreement on Trade and Tariff) that came into operation in 1946 was conceived to be a regulating body devoted to bringing down tariff rates and removing step by step, restrictions on the free flow of international trade.

This was to be done by the GATT engaging in successive rounds of multi lateral negotiations among member countries for effecting an agreement on a given amount of reduction in the level of custom duties on imports. In all seven rounds of GATT negotiations here undertaken over the fifty years from 1946 to the present day, the Uruguay Round being the last and most productive among them. The Uruguay Round was the most exhaustive and prolonged one taking seven years to complete it. It was also far more comprehensive than the earlier rounds. Besides trade in manufactured goods, it covered trade in agricultural products, intellectual property right and services like banking, insurance and shipping. The course of negotiation was tortuous and there was uncertainty about completion of the government till the dead line December 15, 1993 which the Director General of GATT had fixed for approval. It was a few minutes before midnight of December 15, 1993, that the deal was struck and approval given to the Final Act, which is called Uruguay Round Agreement. The agreement is based on Dunkel proposals one of the clauses of these proposals is that GATT would cease to exist and in place would be taken by a permanent body to look after the affairs of international trade.

That body is to be called the World Trade Organization. WTO started with a membership of around 125 countries. The Final Act was signed by 123 nations. The GATT Agreement, approved by their respective legislature by <https://assignbuster.com/this-birth-to-the-twin-financial-institution-of/>

the end of 1995 legislation to that effect was before the American Congress which ratified the GATT agreement by the end of October 1994. There were some doubts earlier that US Congress may not accord its approval to the GATT agreement and thereby with holding the birth of WTO on Jan, 1995.

Unlike GATT which was an adhoc affair WTO is going to be a permanent entity. It is going to join IMF and world as the third premier institution looking after the conduct of international relations in respect of trade, finance and development. For reordering of world economic relations along smoother course and equitable lines the importance of putting an institution like WTO in place of a permanent basis can not be over-emphasised. The advantages of having WTO are obvious. First it is the most progressive instrument for world economic reforms. It smoothens trade flows worldwide which in turn holds promise of enormous increase in trade opportunities and volume of world trade, much higher growth rate of world economy and increase in income and employment world wide.

Free trade is going to prove an economic boom to all member countries of WTO. The gain of free flow of tax is, of course, not going to be equally distributed among all member countries. Some are obviously going to gain more than others.

It is possible that some rich and large trading countries may be even hurt, albeit temporarily, by the new world trade order that the GATT agreement and the WTO are about to rig in. But the world as a whole is going to gain enormously and USA, the world's largest and richest trading nation, today is going to benefit from the new dispensation in the world. Second WTO would

save weaker countries from bilateral excesses and arbitrariness that characterizes strong trading countries notably, USA in dealing with their weaker trading partners. USA in its dealing with Japan, China and even India, has shown that it is hard to deal with the mighty nation which presents itself to be the world's biggest advocate of the principle of free trade. In the last two years imposition of sanctions, under its trade law 301 and super 301, has been kept hanging like a Sword of Damocles over the heads of its perceived erring trade partners like Japan and China by the USA. This law is arbitrary and totally opposed to the spirit of free trade that can have no place in the emerging global trade order that the WTO is charged with the responsibility to administer. Third WTO is not only going to supervise the implementation of Final Act or the Last GATT agreement reached in December 1993.

It is also going to act as a sort of international court of justice for setting trade disputes among member nations. It is possible that countries like the U. S. A.

may get away with high handedness in treatment of their trading partners, but that can only be for sometime. For unlike in IMF and World Bank, every member country of WTO is an equal partner exercising a single vote in decision making in the council of the World Trade Organization. That should prevent any single country, however powerful, exercising undue influence in decision making.