

15.14: The Role of the GATT in Reducing Barriers to Trade

Learning Objectives

- Explain the origin and role of the General Agreement on Tariffs and Trade (GATT)

Reducing Barriers to Trade

As you know, **tariffs** are taxes that governments place on imported goods for a variety of reasons. Some of these reasons include protecting sensitive industries, for humanitarian reasons, and protecting against **dumping**. Traditionally, tariffs were often used as a political tool to protect certain vested economic, social, and cultural interests.

At the beginning of the Great Depression in 1930, the U.S. Congress passed the Smoot-Hawley Tariff Act to protect American jobs and industries from foreign competition. This act raised U.S. tariffs on dutiable imports to nearly 60%. U.S. trading partners retaliated by raising their own tariffs on U.S. exports, with the result that international trade between the [warring] nations declined by half. The consensus among economists is that the Smoot-Hawley tariffs contributed significantly to the depth and length of the Great Depression.

At the end of World War II, there was a consensus that tariffs were too high worldwide, and that tariff reductions could stimulate international trade and return the world to a thriving, peacetime economy. In the years after the Great Depression and World War II, there was a worldwide push to build institutions that would tie the nations of the world together. The United Nations officially came into existence in 1945. The World Bank, which assists the poorest people in the world, and the International Monetary Fund, which addresses issues raised by international financial transactions, were both created in 1946. The third planned organization was to be an International Trade Organization, which would manage international trade. The United Nations was unable to agree to this. Instead, the **General Agreement on Tariffs and Trade (GATT)**, was established in 1947 to provide a forum in which nations could come together to negotiate reductions in tariffs and other barriers to trade. In 1995, the GATT was transformed into the World Trade Organization (WTO).

The GATT process was to negotiate an agreement to reduce barriers to trade, sign that agreement, pause for a while, and then start negotiating the next agreement. The rounds of talks in the GATT, and now the WTO, are shown in Table 1. Notice that the early rounds of GATT talks took a relatively short time, included a small number of countries, and focused almost entirely on reducing tariffs. Since the 1970s, however, rounds of trade talks have taken years, included a large number of countries, and an ever-broadening range of issues.

Table 1. The Negotiating Rounds of GATT and the World Trade Organization

| Year | Place or Name of Round | Main Subjects | Number of Countries Involved |
|---------|------------------------|--|------------------------------|
| 1947 | Geneva | Tariff reduction | 23 |
| 1949 | Annecy | Tariff reduction | 13 |
| 1951 | Torquay | Tariff reduction | 38 |
| 1956 | Geneva | Tariff reduction | 26 |
| 1960–61 | Dillon round | Tariff reduction | 26 |
| 1964–67 | Kennedy round | Tariffs, anti-dumping measures | 62 |
| 1973–79 | Tokyo round | Tariffs, nontariff barriers | 102 |
| 1986–94 | Uruguay round | Tariffs, nontariff barriers, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO | 123 |

| Year | Place or Name of Round | Main Subjects | Number of Countries Involved |
|-------|------------------------|--|------------------------------|
| 2001– | Doha round | Agriculture, services, intellectual property, competition, investment, environment, dispute settlement | 147 |

The sluggish pace of GATT negotiations led to an old joke that GATT really stood for Gentleman's Agreement to Talk and Talk. The slow pace of international trade talks, however, is understandable, even sensible. Having dozens of nations agree to any treaty is a lengthy process. GATT often set up separate trading rules for certain industries, like agriculture, and separate trading rules for certain countries, like the low-income countries. There were rules, exceptions to rules, opportunities to opt out of rules, and precise wording to be fought over in every case.

Watch It

Watch this video to review some of these major trade agreements.

A link to an interactive elements can be found at the bottom of this page.

Try It

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Learning Objectives

[glossary-page][glossary-term]General Agreement on Tariffs and Trade (GATT):[/glossary-term][glossary-definition]forum in which nations could come together to negotiate reductions in tariffs and other barriers to trade; the precursor to the World Trade Organization[/glossary-definition][glossary-term]tariffs:[/glossary-term][glossary-definition]taxes that governments place on imported goods[/glossary-definition][[/glossary-page]

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