

# The GATT system: rounds

Paul Krugman

## The original “contracting parties”:

The Governments of the Commonwealth of Australia, the Kingdom of Belgium, the United States of Brazil, Burma, Canada, Ceylon, the Republic of Chile, the Republic of China, the Republic of Cuba, the Czechoslovak Republic, the French Republic, India, Lebanon, the Grand-Duchy of Luxemburg, the Kingdom of the Netherlands, New Zealand, the Kingdom of Norway, Pakistan, Southern Rhodesia, Syria, the Union of South Africa, the United Kingdom of Great Britain and Northern Ireland, and the United States of America:

GATT principles:

Non-discrimination:

Most Favored Nation (MFN)

National treatment

Negotiation: Rounds

Irreversibility: Binding

## Also: prohibition on quantitative restrictions

No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

# Specific allowance for import-substituting industrialization

1. The contracting parties recognize that the attainment of the objectives of this Agreement will be facilitated by the progressive development of their economies, particularly of those contracting parties the economies of which can only support low standards of living\* and are in the early stages of development.\*
2. The contracting parties recognize further that it may be necessary for those contracting parties, in order to implement programmes and policies of economic development designed to raise the general standard of living of their people, to take protective or other measures affecting imports, and that such measures are justified in so far as they facilitate the attainment of the objectives of this Agreement.

Consequently, a contracting party, the economy of which can only support low standards of living\* and is in the early stages of development,\* shall be free to deviate temporarily from the provisions of the other Articles of this Agreement, as provided in Sections A, B and C of this Article.

# Dumping and countervailing duties

In order to offset or prevent dumping, a contracting party may levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in respect of such product. For the purposes of this Article, the margin of dumping is the price difference determined in accordance with the provisions of paragraph 1.\*

## Escape clause / safeguards

If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

## Article XXIV: Free trade areas and customs unions

4. The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.

5. Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area; *Provided* that:

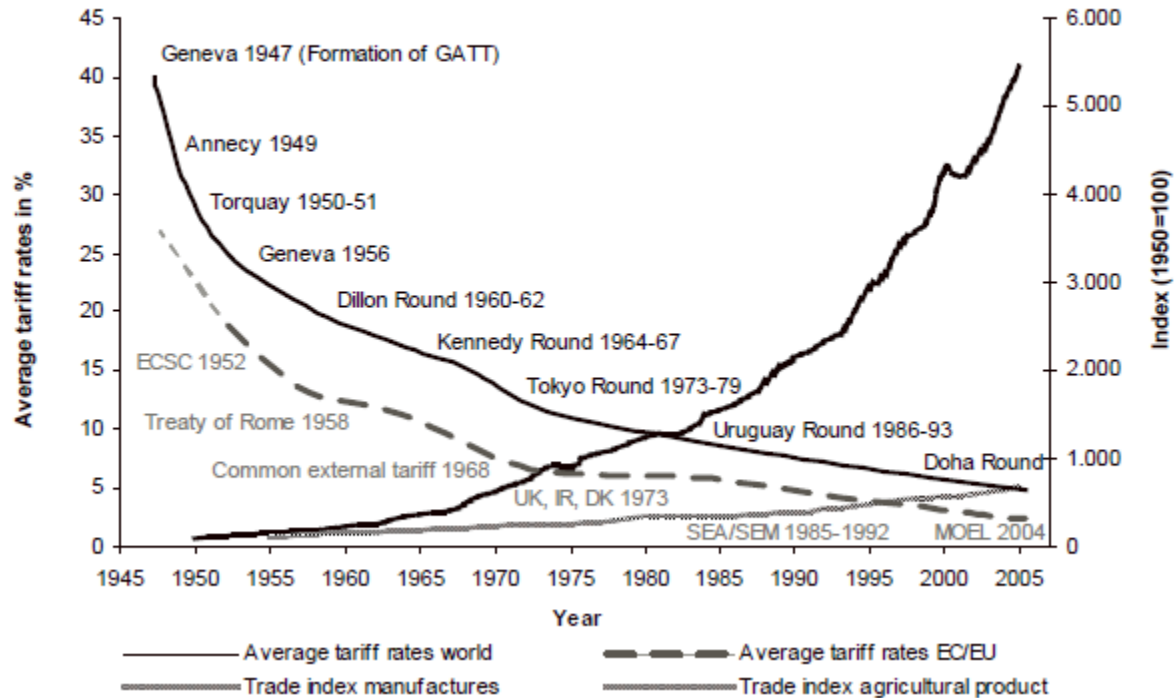


Year	Round	Action
1947	Geneva	45,000 reductions in bilateral tariffs covering 20% of world trade.
1949	Annency, France	5,000 reductions in bilateral tariffs.
1951	Torquay, England	8,700 reductions in bilateral tariffs covering a new range of goods.
1955-56	Geneva	Reductions in bilateral tariffs.
1960-62	Dillon Round	Reductions in bilateral tariffs. EEC talks begin.
1964-67	Kennedy Round	Reductions in bilateral tariffs. Negotiation rules established.
1973-79	Tokyo Round	Reductions in bilateral tariffs. Procedures on dispute resolution, dumping and licensing.
1986-93	Uruguay Round	Additional tariff reductions. Stalemate for agricultural tariffs.
1995	WTO established	WTO replaces the GATT.
2001-	Doha Round	Divergences between developing and developed countries. Issues over agricultural subsidies.

Source: adapted from W.J. Bernstein (2008) *A Splendid Exchange: How Trade Shaped the World*, New York: Atlantic Monthly Press, p. 358.

## GATT Rounds

### Tariff reduction within the GATT/WTO and EC/EU and world merchandise trade 1947-2005



But why?

GATT-think (as originally proposed)

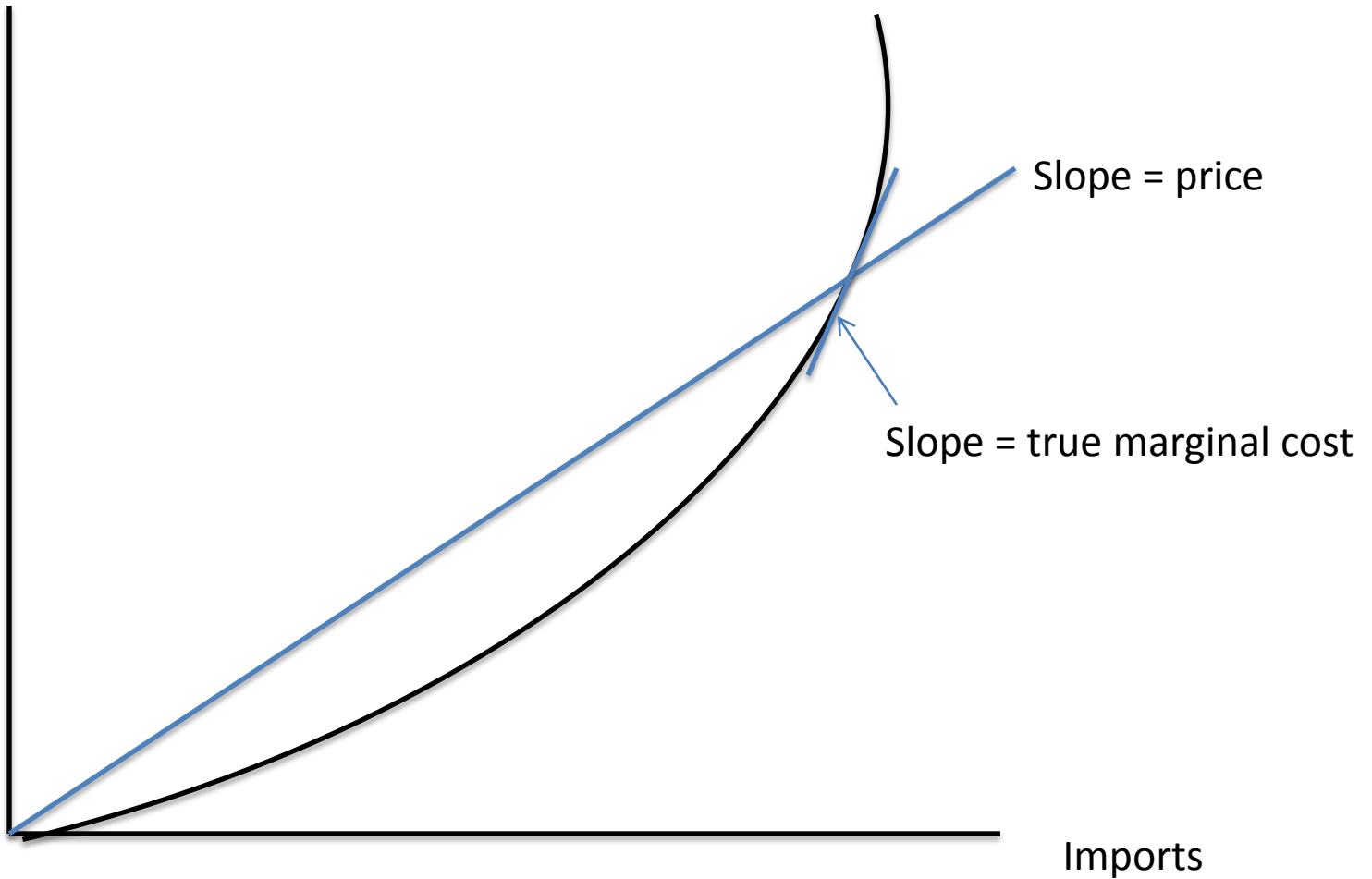
1. Exports good
2. Imports bad
3. More trade good

I.e., enlightened mercantilism

# The optimal tariff argument

Exports

Foreign offer curve

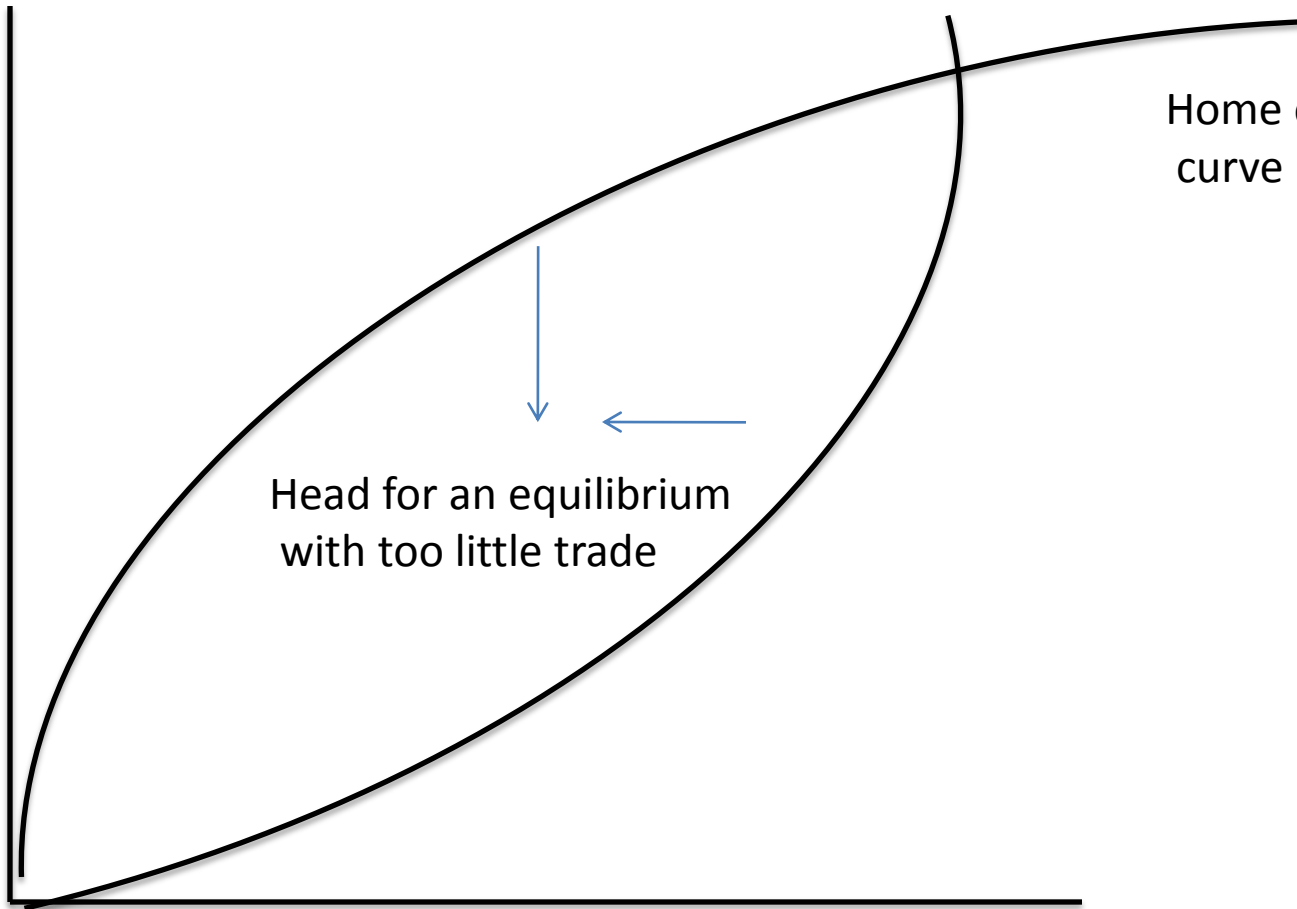


But if both countries do it ...

Exports

Foreign offer curve

Home offer curve



Head for an equilibrium  
with too little trade

Imports

Political economy models argue that this is what tips the balance toward making trade agreements desirable ...

Is this right? Are trade negotiators doing this even though they don't think this way?