

# Creating a Fair System for Global Trade Governance Takes Time

The system of managing international trade today crystallized during the years between World War I and World War II, an interwar period that truly was a 20-year crisis.<sup>1</sup> Instability, tension and conflict characterized both national and international affairs. The international monetary system had fallen to pieces, culminating in the worldwide Great Depression.

In addition, nations began to retreat behind high tariff walls. The United States “led the way to closure” when it passed the notorious Smoot-Hawley Tariff Act in 1930, raising tariffs to their highest level in 100 years. By 1932, the average tariff on dutiable goods stood at just under 60 percent.<sup>2</sup> Britain followed suit the next year, and all major countries eventually adopted protectionist policies.

World trade soon disintegrated. International economic coordination essentially was dead, and a severe brand of economic nationalism replaced it. This spelled economic disaster and ended in another devastating world war.

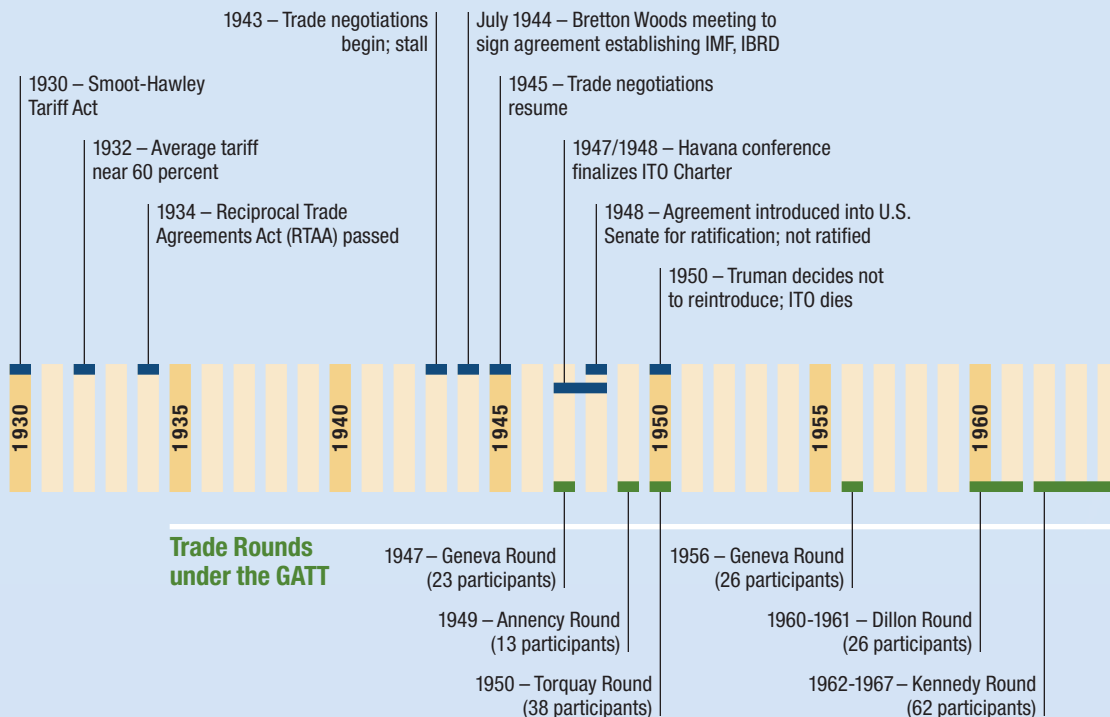
Policymakers of the day urgently sensed the need for an international system to coordinate trade and monetary policy. U.S. Secretary of State Cordell Hull led the charge for an open, managed trading system. He was convinced that open trade would result in economic prosperity and peace among nations. In a May 1941 radio address, he said, “Unless a system of open trade becomes firmly established, there will be chronic political instability and recurrent economic collapse. There will never be peace in any real sense of the term.”

As early as 1934, Hull helped pass the Reciprocal Trade Agreements Act, which authorized the president to negotiate tariff reductions with other nations. This move also signaled the United States’ willingness to reengage internationally on economic matters.

Determined to avoid another period of economic turmoil after World War II, economists and policymakers met periodically to establish rules and institutions that would govern the postwar economic order. The important players in this effort were the United States and Great Britain (represented respectively by Harry Dexter White and John Maynard Keynes), the world’s largest economic powers.

At a Bretton Woods, N.H., mountain resort in July 1944, representatives of 44 countries signed agreements to establish a fixed exchange rate system based on the U.S. dollar and two international governance institutions: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development, now known as the World Bank. The IMF would manage the short-term financial aspect of the new economic system by providing emergency funds to countries facing currency and balance-of-payments crises. The World Bank would undertake longer-term development projects, initially focused on Europe.<sup>3</sup>

Although the architects of the postwar economic order envisioned a trade regime to complement these financial institutions, they failed to agree on the details. Negotiations on trade issues began in 1943 but soon stalled, and the United States and Great



Britain agreed to put off discussing trade until after the war. In 1947 nations met in Cuba to draft the charter for an International Trade Organization (ITO). The product was “a complex compromise that in some ways embodied the wishes of everyone, but in the end satisfied no one.”<sup>4</sup> Consequently, the charter never went into effect. In the United States, Republican “protectionists” felt it opened markets too much while “free-traders” and exporters felt it did not open markets enough. Knowing that the Charter faced almost certain defeat, in 1950 President Harry Truman decided against introducing the Charter to Congress to be ratified. Without American support, “the nascent ITO die[d] a quick and quiet death.”<sup>5</sup>

The General Agreement on Tariffs and Trade (GATT) also was drafted in 1947 as a basis for ongoing tariff negotiations in Geneva. It was crafted as a temporary measure to be subsumed into the new ITO; it dealt solely with trade of and tariffs on manufactured goods. But when the ITO failed, by default the GATT – which did not need to be ratified – became the sole institution for managing international trade.

Trade rounds, where countries negotiate the conditions of trade, continued under the GATT for the next 35 years. During the eight rounds held in this period, member countries reduced tariff rates significantly (see timeline, below). By the conclusion of the Kennedy Round (1967), average tariffs on dutiable imports in industrialized countries had fallen to approximately 10 percent. By the end of the Tokyo Round (1979), U.S. average tariffs stood

at 5 percent.<sup>6</sup> Agricultural products, though, were exempt from this process.

By the late 1980s, it became clear that the GATT was not strong enough to deal with the changes taking place in the trading system. As tariffs fell dramatically, nontariff barriers became more common. Also, trade in services expanded greatly. These new areas needed to be addressed, but the GATT’s scope was limited to manufactured goods and tariffs. Accordingly, at the last GATT trade round – known as the Uruguay Round – member countries established the World Trade Organization (WTO), expanding its mandate to include these new areas. Officially created on Jan. 1, 1995, the WTO continues to govern international trading interactions.<sup>7</sup>

<sup>1</sup> Beth A. Simmons, *Who Adjusts?* (Princeton, NJ: Princeton University Press), 1994, 3.

<sup>2</sup> U.S. Department of Commerce, *Historical Statistics of the United States: Colonial Times to 1970, Part 2*. (Washington, D.C.: U.S. Department of Commerce), 1975, 888.

<sup>3</sup> Today both the IMF and World Bank are referred to as the Bretton Woods institutions for their birthplace.

<sup>4</sup> Joan E. Spero and Jeffrey A. Hart, *The Politics of International Economic Relations*. (New York: St. Martin’s Press Inc.), 1997, 52.

<sup>5</sup> Jeffrey A. Frieden and David A. Lake, *International Political Economy: Perspectives on Global Power and Wealth*. (Boston: Bedford/St. Martin’s Press Inc.), 2000, 299.

<sup>6</sup> Spero and Hart, 56-7.

<sup>7</sup> The GATT (as GATT 1994) still exists as one of the treaties within the WTO with GATS (General Agreement on Trade in Services), TRIPS (Agreement on Trade-Related Aspects of Intellectual Property Rights) and the Agreement on Agriculture.

