

Lecture 02: The History of Indian Trade and the Formation of GATT

Welcome to the second class. Dear students and today we are going to discuss about the Indian history of international trade where how India was done the international trade and where we are you know in a period of time many centuries back and what is the development of Indian trade and then we will be back to the then the GATT, the GATT principles and the formation of GATT which we ended in the first class.

CONCEPTS COVERED

India and International Trade in the past
The GATT 1947



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So, as we have already said that so we are going to cover the Indian and international trade and also the GATT 1947 in this particular lecture.

GATT & WTO

- **Establishment of GATT and WTO:**
 - **The General Agreement on Tariffs and Trade (GATT) was established in 1947 to reduce trade barriers and promote international cooperation. It eventually evolved into the World Trade Organization (WTO) in 1995, which continues to oversee global trade today.**
- **Globalization and the 21st Century:**
 - **The latter half of the 20th century and the early 21st century have witnessed a dramatic increase in global trade, driven by advances in technology, transportation, and communication. The growth of multinational corporations and the rise of e-commerce have transformed international trade.**

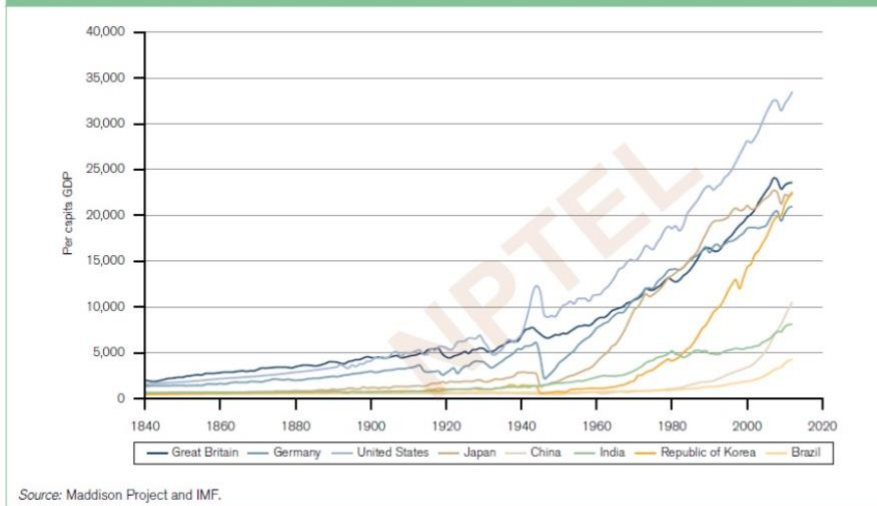


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So, we already said that the formation of GATT in the Bretton Woods Institutions which we talked about in the last class.

Figure A.1: Per capita GDP for selected economies, 1840-2012
(1990 International Geary-Khamis dollars)



So, we will come after the Indian and also the world trade little bit on the statistics and then we will be back to the GATT. So, here you can see in this particular definitely it is an IMF data which says that from 1840 to 2020 data. So, it is centuries. So, we can say that centuries old data which shows in a single phase where it show the economic prospects of many countries including India. So, here you this the data is specifically on per capita GDP for selected economies from 1840 to 2000 they put it, but at that point of time they have made certain projections as well up to 2020. But actually when we look into from 1840 you can see the graph is very low even up to the 1950s and 1960s. So, but from 1970s onwards especially after the 1950s you can see all the graphs are going up some of the countries like Germany or it is great Britain, United States and Japan most importantly, Republic of Korea and the countries like India developing countries like India, Brazil the graph is going up and with a very high you know speed from the 1950s. So, this shows that how you know the international merchandise trade can influence the per capita GDP of countries those who are opened up their economies from the very beginning. So, when we compared with 19th century to the 20th century there is no comparison of per capita GDP. So, the international trade has made a very crucial role in increasing the per capita or per capita GDP of the selected economies. So, this particular graph very clearly says that what is the development in the 19th century and 20th century in these particular countries especially the important developed countries like Great Britain, Germany, United States even you can say that once upon a time very a poor country like Korea we are talking about South Korea and now it become we can say that a developed country. So, once upon a time there were very poor countries and it suddenly become because of the economic growth and the world trade they become rich countries.

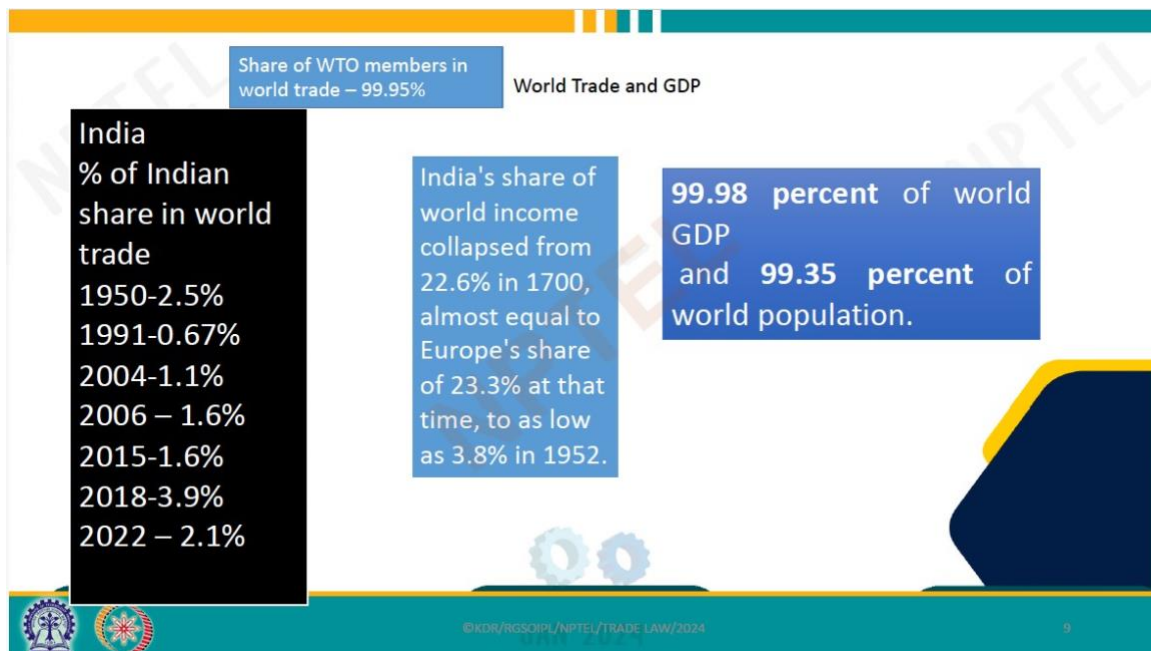
India

- **1700 CE, all the large scale industries like mining, metallurgy, textiles, arts, and crafts flourished in India.**
- **They boosted trade to such an extent that India held about 1/4th of the world's GDP (Gross Domestic Product)**
- **India ranked number 1 in the list of nations with the highest share of the world's GDP at close to 25 percent from 1 CE all the way through the next two millennia up to 1700 CE, after which it dropped sharply during British rule.**



So, come back to India. So, we can see that and one of the largest industries were there in India in once upon a time especially before 1600 before the Britishers came to India. So, and especially even after immediately after the Britishers came to India in 1700 also all these large scale industries like mining, metallurgy, textiles, arts and crafts and other industries flourished in India.

So, history says that these are flourished immediately after they came to the India and also the GDP and one fourth of the GDP we cannot believe that one fourth of the world GDP was owned by India at that point of time 1700 we are talking about you know few centuries back and then you can see the highest share of GDP even close to 25 percent 25 percent from in a long period of time. So, India was a richest country in the world from you know say 1 to 1700. So, it means centuries many centuries India contributed to international trade and India was a rich country which contributes 25 percent of the world trade or 25 percent of the world GDP. So, this is become 25 percent. So, I have one more slide to show very clearly that what was the Indian contribution then we will come back to the other slides.



So, here you can very clearly say that what was the contribution 25 percent before 1700 and in 1700 it become 22.6 percent and then how it is gone down during the British period to you know 2.5 percent in 1950 and unfortunately from 2.5 percent it is again gone down substantially up to 1991. So, it means a country who owns the world trade.

So, the or I would say that the world income 25 percent of the world you know trade or share of world trade and presently equal to as that of 27-28 countries of the entire Europe equal to as that of. So, presently the share of Europe is 23.3 percent. So, and so you can see that India was a richest country once upon a time and after independent also. So, this is decreased rather increased.

So, our percentage of the contribution has gone down substantially up to 2015. So, you can see a surge of share in world trade India after 2015 only remember and now the you can see that 99.98 percent of the world GDP is owned by 164 WTO member countries and these 164 countries constitute 99.35 percent of the world population.

India

- **1700 CE, all the large scale industries like mining, metallurgy, textiles, arts, and crafts flourished in India.**
- **They boosted trade to such an extent that India held about 1/4th of the world's GDP (Gross Domestic Product)**
- **India ranked number 1 in the list of nations with the highest share of the world's GDP at close to 25 percent from 1 CE all the way through the next two millennia up to 1700 CE, after which it dropped sharply during British rule.**



So, what I want to say is that once upon a time India was a great country India was a rich country and how it is sharply become 25 percent to 2.5 percent in 1947 or I would say that 1950 up to you know independence 25 percent to 2.5 percent.

Trade

- **The Indian Merchant Navy had possessed a fleet strength of 40,000 ships during Akbar's reign and 34,000 ships before the British took over India. (The historical records of the Indian Merchant Navy).**
- **between 1493 and 1930, India had absorbed 14 percent of the world's gold production, meaning that it had earned that much export surplus for five centuries continuously. (The 1934-35 annual report of the Bank of International Settlements [BIS].)**

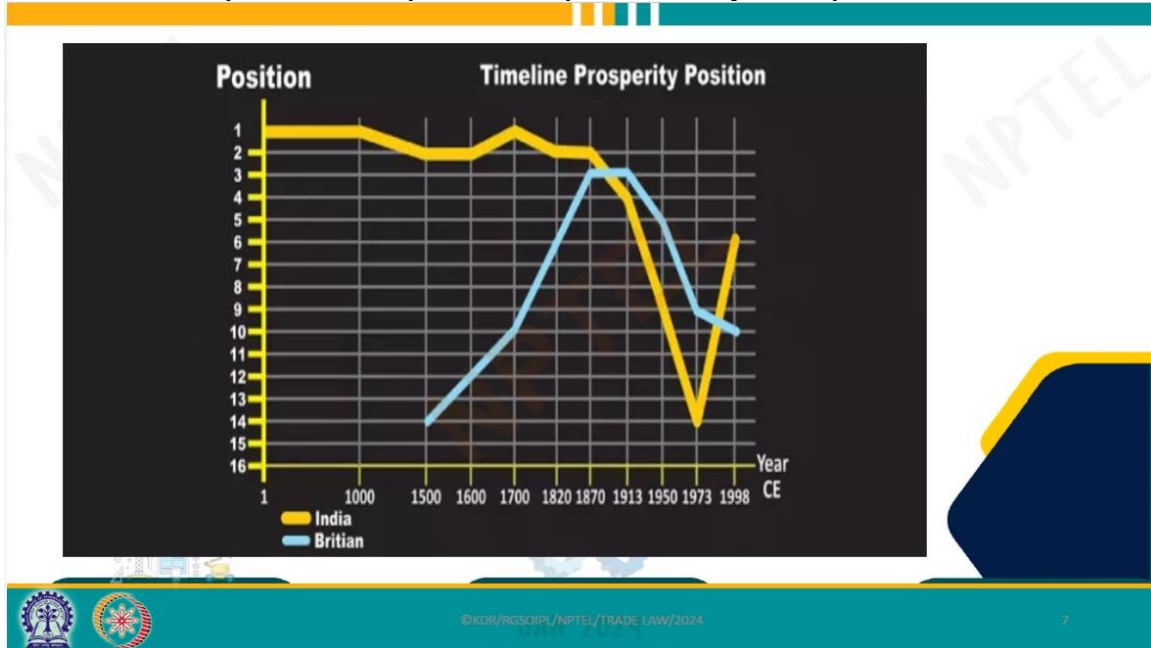


So, the Britishers have completely exploited the country like colonized countries like India and exploited the resources and taken away the entire raw materials from the countries like India and also the history says that India has a very strong history of its fleets, its ships. So, it is specifically it is mentioned that the Indian merchant navy have 40000 ships can you imagine during the Akbar's period. So, there were so 40000 merchant ships.

So, we have you know so even though it is 40000 to the numbers are whether it is 40000 or 34000 does not matter. The historical records which shows that India have a very

strong fleet of this merchant navy which played a crucial role in the contribution of world trade of India at that point of time up to Britishers. So, you can see the gold production India was one of the largest gold producing countries at that point of time and definitely you earn from you export the gold and you earn from this the production of gold. So, here you can say that even during the British time also India was one of the largest producer of gold. What does it mean? It means that we were producing at the same time the raw materials as raw materials it is taken away from India and it is colonial masters made you know wealth out of the Indian resources.

So, it became 25 percent to 2.5 percent in a period of very small period of time.



So, here the comparison between the two countries that is India and Britain. So, you can very well see that how the Britain has prospered from 1600, I would say that the they came to India in 1600 then 1600 to you know is in 1947. So, there is you know the how India from the position of number 1 how they become by 1950s to what position? It clearly shows the you know the year wise.

So, centuries many centuries. So, how the India has you know one of the richest countries in the world for many centuries and we become the prosperity become how it can came down during these colonialized periods.

So, this, all these data which shows that India was a rich country for centuries and all centuries and centuries.

The Untold Stories

- **“India was a major player in the world export market for textiles in the early 18th century, but by the middle of the 19th century,**
- **it had lost all its export market and much of its domestic market.**
- **While India produced about 25 percent of the world’s industrial output in 1750, this figure had fallen to only 2 percent in 1900.”**
- **(Prof. David Clingingsmith and Prof. Jeffrey G. Williamson, of the Harvard University.)**



And also we can see that the India was a major player in exports, export market of for textiles even up to 18th century and 19th century. As I told you it was a monopoly of dying was a trade secret of Indians dying of textiles was a trade secret of Indians even up to the 19th century. And so again so we already said that so India was contributing 25 percent to the world trade industrial output in once upon a time that is about that is even after 1600, 1750 also.

So, in it is fallen to 2 percent in 1900. So, in a small I said that in the history of world trade the rich countries become poor countries because in a course of international trade these countries are subject to colonization and they become poor countries. So, India is one of the best example of a rich country it become a poor country. So, once upon a time India contributed 25 percent of the world industrial output and world trade it is it become a single digit number by 1900.

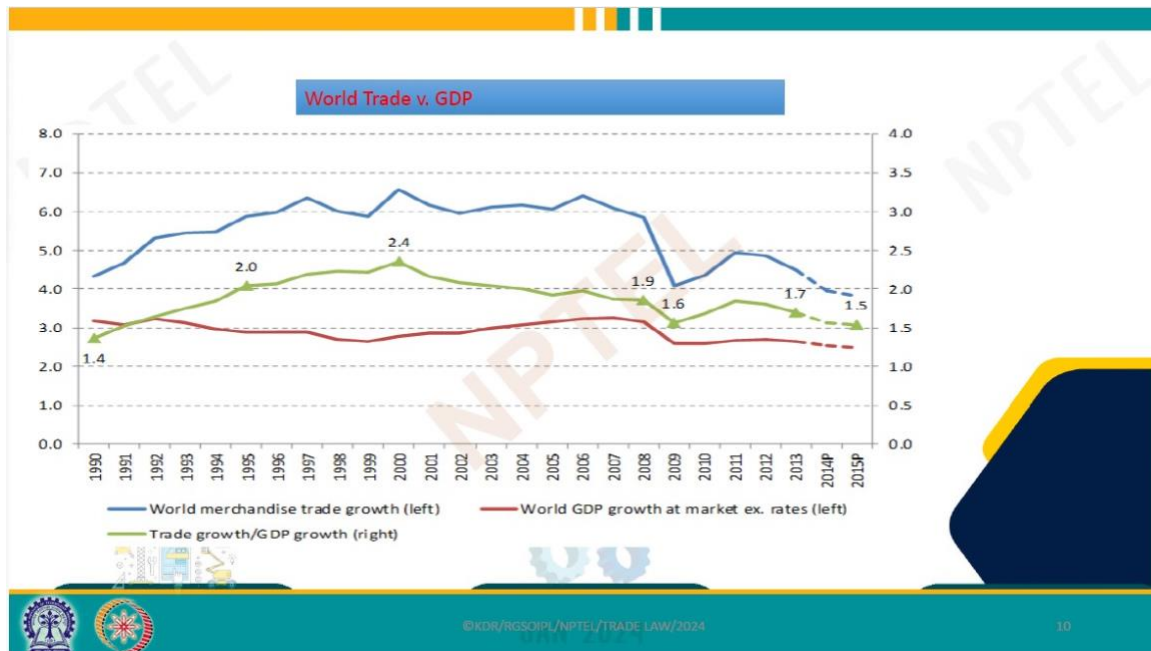
So, it was 2.5 percent in 1950 and again it gone down during the entire period up to 2015 and only you can see the number goes up after 2015. So, it shows that the the international trade have a great influence on countries to become rich and poor.



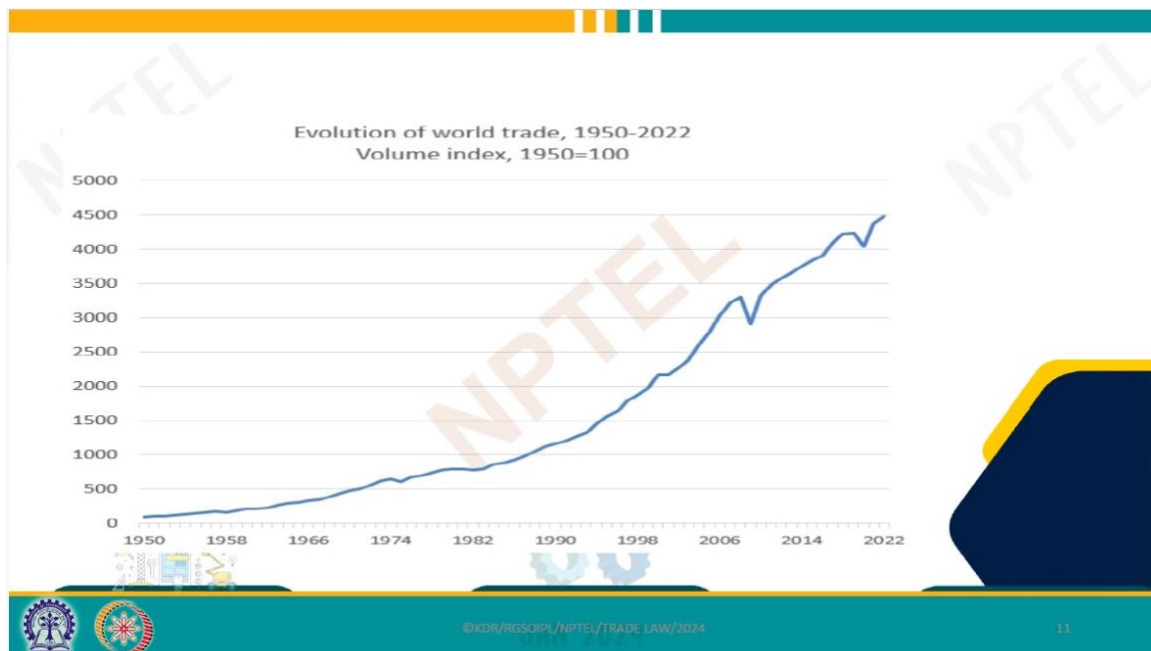
So, we have already seen this particular data, but you can see that so India become almost bankrupt in 1991. India one of the richest country in the world once upon a time which contributed almost 25 percent of the world trade and the world income has dropped down it is become a bankrupt country in 1991 and we were no money to pay for the outside debt at that point of time. So, we were forced to open the the immediate effect was that we were availed an IMF loan to survive to pay off the debt and we took a IMF loan and also as a result of that particular loan as a result of that particular loan we agreed to the conditionalities of the IMF to open up our economy.

So, we open up our economy in 1991 which again we saw resulted in a raise in our contribution to the world economy. Even in 2018 it is reached to 3.9 and from 2018 again it is going down and it reached in 2023 around 2.5 percent. So, it means that so it took centuries.

So, it will take centuries to reach you know to show some express prosperity in the world trade and you know your country become rich. So, so 25 percent to 2 percent still we are in 2 percent. So, that is the contribution of India.



So, when we look into the merchandise trade growth. So, you can see that from 1990 to 1995 the WTO came into existence you can see a substantial increase in merchandise trade is from 1995 and the world GDP also, but when compared to the merchandise trade the merchandise trade has trade growth you can see the green line which shows that from 1995 onwards there is a sudden surge from 2 to you know if you take a period of 1995 to 2000 there is 2 to 2.4 there is an increase in the world trade growth or GDP growth and when it sees the red line the world GDP growth rate. So, you can see that it is almost you know stagnant even from 1992. So, even going down by 2015. So, the world merchandise trade has increased and the trade growth also increased, but the world GDP is not increasing as compared to as that of the merchandise trade and the world trade growth. So, this world trade versus GDP is again a misnomer. So, trade is increasing and trade growth is also you know there is substantial growth, but the world GDP growth rate is not as good as that of the merchandise trade the trade is again increasing.



So, this is a very recent data I have taken it from the world bank database which says that the data from 1950 to 2022. So, this shows the world trade. So, you can see that from 1950 onwards the world trade volume the volume has increased many fold. So, if it is 1950 you take it as a 0 and it has reached even up to 4500 in 2022 last year. So, world trade is phenomenal especially you can find it after 1995 the constitution of WTO. So, that is the importance of this particular course. So, there is a sudden increase in the volume of world trade and also the value of world trade after constitution of the world trade organization. So, it is very necessary to study the rules and regulations dealing with WTO. So, this evolution of this world trade from 1950 very clearly shows that the trade is trade have an impact on the economy of developed countries as well as developing countries.

World Trade

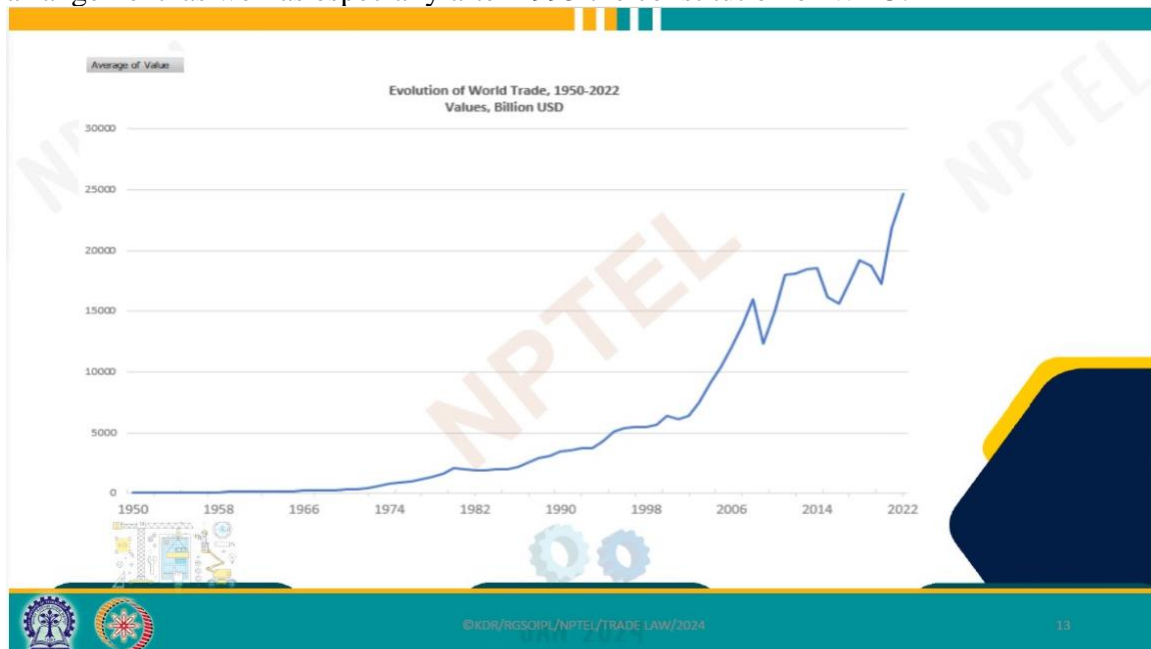
- **World trade volume today is roughly 45 times the level recorded in the early days of the GATT (4500% growth from 1950 to 2022).**
- **World trade values today have ballooned by almost 400 times from 1950 levels.**
- **Volume and value graphs below show trade picking up steeply since the establishment of the WTO in 1995.**
- **As of 2022, world trade volume and value have expanded 4% and 6% respectively on average since 1995, when the WTO was first established.**
- **The world's current MFN-applied tariffs stand at an average of 9%.**

So, here when we talked about you know GATT and we will discuss more about it, but world trade today if we look into the volume is 45 times that means there are 4500 times growth rate from 1950 to 2022.

So, this is the world bank data which shows clearly shows 4500 times the world trade increased.

So, 1947 the GATT came into existence from up to 1995 the GATT has prevailed from 1995 to 2023 the WTO regime is going on. So, we can say that there is a total of 4500 percent growth the phenomenal growth of international trade during the GATT and WTO.

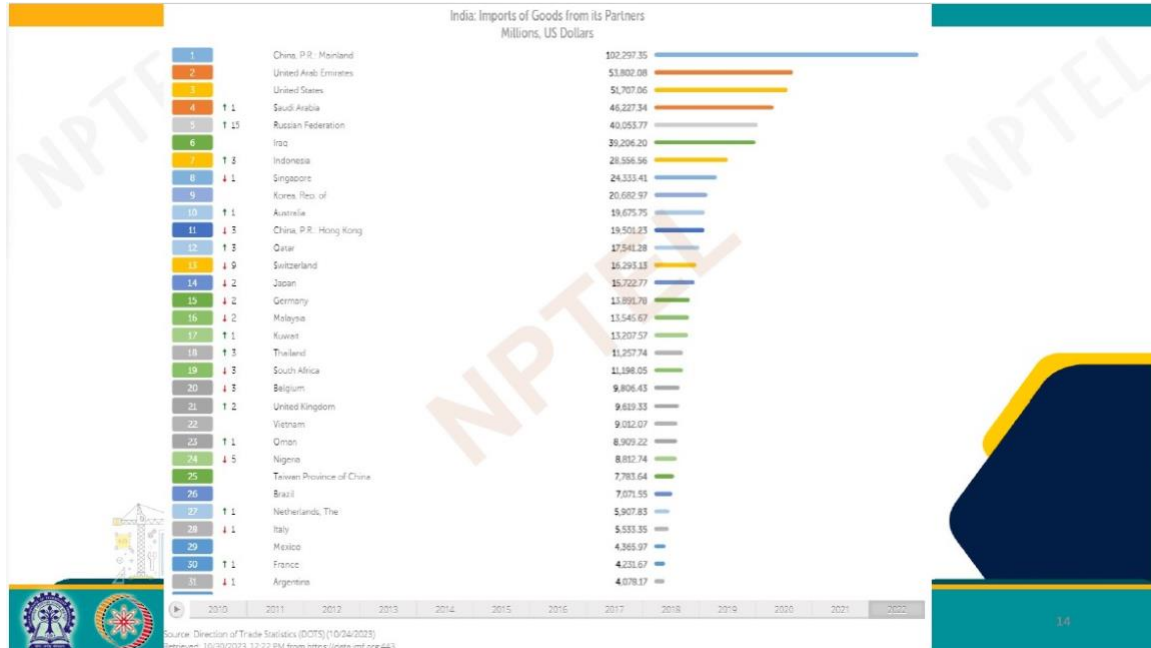
So, you can say that you know. So, as I told you that there are many times and trade values the trade value also it is not only the volume trade value also increase 400 times from 1950 levels. So, basically it is not only the volume increased the value also increase many times. So, the volume and you can see the volume and value graph has increased many fold from 1995. So, it says that around you know since the average growth rate in 2022 you can see that this is expanded to 4 percent and 6 percent whole trade and volume has expanded to 4 percent, 6 percent on average from 1995 onwards. So, it means the growth rate is phenomenal because of the constitution of the GATT arrangement as well as especially after 1995 the constitution of WTO.



Here again the world bank has come out with these the values. So, this is also from 1950. So, you see the how the value of world trade has fluctuated during certain economic crisis especially the economic crisis in 2008 and also recently definitely 2019-20 or 21 especially because of the pandemic we can see a fluctuation. But up to 2006 or 2007 from 1950 onwards the trade value in you can see the billion dollars even it reached 1600, 1600 USD billion dollars and even though it in 2008 it met with the economic crisis then again it is recovered and it reached even though up and down you can see from 2008 onwards. But in 2022 you can reach again it is reached to the phenomenal level of 2500 USD billion dollars.

So, this is international trade how the international trade can influence the countries. So, now you saw the value now you saw the volume and definitely this world bank data

shows that the volume increased GDP increased and the value of exports world trade also increased not decreased from the 1950 onwards.



So, this data is on India. So, India is selling what and importing what from which are the whose countries why I included this particular data that we know that who is our trading partners this is a very recent data again from the world bank data it says that who is India's trading partners. So, our trading partner the number one trading partner is China. So, you can see the value as well then it goes like UAE is the second largest trading partner and United States is only third then again Saudi Arabia, Russian federation then it is and we can see some of the surprise countries like Iraq, Indonesia, Singapore, South Korea, Australia then small countries like Hong Kong, Qatar and the up to you know 31 countries are mentioned even we have a very good trade relationship with even Argentina. So, you can see the value and the most important thing which you can find is the Gulf countries. The Gulf countries together in between you can find Qatar, you can find Oman and you can find the Saudi Arabia and you can find Kuwait and also you can find yeah yes definitely Qatar and also some of the other countries which we can find including Iran, south east Asia or west Asian countries some of these countries. So, these are the Indian trading partners and India is importing goods largest trading partner of India is these are the present countries. So, you can see that you take the Silk route. So, again you can see those countries and China definitely the Silk route passes through the Silk route passes through and then to the Mesopotamia at that point of time whether it is Iran or Iraq countries and from there to the European countries and on the other hand. So, to the Gulf countries, the Gulf countries are always the transit point of Indian spices and precious metals to the western countries even time immemorial period. So, again you can find the Gulf countries are trading partners and definitely the oil also includes. So, it is the separate blocks which we can find what we do trade with whom. So, this data very clearly shows that and whom are our trading partners.

Challenges to World Trade

- **Recent geopolitical developments, such as trade tensions between major economies, the United States' withdrawal from international agreements, Non-cooperation and the rise of protectionist policies, have introduced new dynamics to the world of international trade.**
- **The history of international trade reflects the evolution of human societies, the interplay of economic and political forces, and the ever-changing nature of global commerce.**
- **It continues to be a dynamic and crucial aspect of the modern world, shaping economies, cultures, and international relations.**



Then if you look into the challenges to the world trade. So, we can see that in some of the cases the United States, we will come back to the GATT and WTO as you know very soon, but we can clearly say that the United States will come up with certain good ideas like ITO and then later on they will withdraw like the now presently they are you know. So, very well objecting to the appointment of appellate body members in the dispute settlement system, non cooperation. So, this is the part of you know the world politics, but it is a part of world international trade as well it is affecting international trade. And the evolution of these societies all over the world there is a close political economic and also geopolitical interest.

This is also plays a crucial role international trade. So, these the crucial roles will continue and then we will come back to the GATT.

The Havana conference, Cuba, December 1947

- **One of the purposes of this UN Conference on Trade and Employment was to set up an International Trade Organization as a third world economic pillar alongside the World Bank and International Monetary Fund.**
- **The attempt failed, but the negotiated trade rules, the General Agreement on Tariffs and Trade (GATT), did take effect from 1 January 1948.**



So, the last class which we stopped in the formation of the GATT or the Bretonwood institutions. So, you can see the Havana conference.

The Havana conference happened in Cuba in 1947. So, they come out with so the United Nations conference on trade and employment. So, the basic objective was to form 3 organizations which we already talked about and the one was international monetary fund and second one was the IBRD International bank for reconstruction of the Europe. And then the third was the ITO that is International trade organization. The two organizations were took off and the third organization the most important trade organization, international trade organization ITO was mainly is not at all it is took off mainly because of the non cooperation the American president has declared that they are not going to approve it. So, it is failed the ITO was failed, but the GATT has emerged the GATT has signed by is at that point of time by the countries in order to reduce the tariffs.

So, the GATT came into existence from 1948 onwards.

The Havana conference

- The system that has become known as the [multilateral trading system](#) was born.
- For 47 years, GATT served as an ad hoc international organization, taking up some of the functions originally intended for the ITO.
- Here, Eric Wyndham-White, the conference executive secretary, gives a press conference in Havana's Capitolio on 10 December 1947.
- He was to become the first GATT Director-General, a post he held from 1948 to 1968.



So, as the Havana conference the emergence of GATT the GATT has ruled the international trading system for 47 years up to 1995. So, we can see there is lot of up and downs from 1947 to 1995 and there are many people those who are contributed there are many people those who are contributed to the development of the GATT and the WTO system.

Havana Charter for an International Trade Organization (the ITO) in 1948.

The first two sentences of The Charter's Articles of Agreement read:

Recognizing the determination of the United Nations to create conditions of stability and well-being which are necessary for peaceful and friendly relations among nations,

The parties to this Charter undertake in the fields of trade and employment to co-operate with one another and with the United Nations.



So, the mainly as I told you the Havana conference was for the establishment of ITO which was never happened, but it is very interesting to see the charter what the charter says. The charter says that recognizing the determination of the United Nations to create conditions of stability and well being which are necessary for peaceful and friendly relations among nations the parties to this charter undertake in the field of trade and employment to cooperate with one another and with the United Nations. So, the objective was very clear to form a trade organization which was not happened at that point of time.

The Objective of World Trade

- The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance.
- Cordell Hull articulated this principle of U.S. policy on February 6, 1938:
- “Our nation, and every nation, can enjoy sustained prosperity only in a world which is at peace; a peaceful world is possible only when there exists for it a solid economic foundation, an indispensable part of which is active and mutually beneficial trade among the nations.”



So, the proposal was to make the international trade very smooth and also the proposal was to form remove all possible trade barriers to the international trade which will ultimately contributed to international peace and security and also the cooperation

between states. So, the US secretary of state at that point of time the Cordell Hull who contributed immensely to the US policy at that point of time. So, in a period of time especially after the second world war in order to formulate various economic policies of the US who said that. So, what is there the US policy or economic policy at that point of time he said that I quote our nation and every nation can enjoy sustained prosperity only in a world which is at peace. A peaceful world is possible only when there exists for it a solid economic foundation and in this principle part of which is active and mutually you can see beneficial and made among the nations I unquote.

So, he very clearly said what is the relationship between peaceful because his statement is on the background of economic crisis and the two wars the first world war and the second world war. So, the people very clearly the US position is very clearly said. So, this economic position is connected with trade.

US Measures

- Great Depression of 1929, US Congress had passed the Tariff Act of 1930, better known as the Smooth-Hawley Tariff Act, which had raised tariffs on more than 20,000 products.
- [Mr. Cordell Hull](#), US Secretary of State and champion of free-trade internationalism,
- During the GATT negotiations, Sir Richard Stafford Cripps, President of the British Board of Trade, disagreed with the US vision as articulated by Cordell Hull.
- He strongly opposed the dogmatism of the "American free traders". For the UK, the immediate elimination of the "Ottawa System of Imperial Tariff Preferences.

and again you can see that the we already said that there is lot of restrictions were put by the countries in the great depression of 1930s. For example, the US has enacted the *Smooth-Hawley Tariff Act* to increase the tariffs to the tune of more than 20000 products especially it comes from Canada and UK.

So, even though Mr. Cordell Hull was the proponent of free trade who is considered to be the champion of free trade and, but forced to impose more and more tariffs and at the same time you can see the main negotiator of the international trade from UK from Britain was Sir Richard Stafford Cripps who was throughout his presidency of the British board he participated in the all conferences for the liberalization of trade. So, actually he opposed the US position and what he say that. So, US position of American free trades American free trades. So, here he argued for elimination of all tariffs rather than you know specific tariffs on US. So, he argued for you know there was a conflict of interest between America and Britain at that point of time.

Great Depression

- The Great Depression in the 1930s set off a vicious spiral of trade retaliation that saw two-thirds of world trade wiped out,
- worsened unemployment,
- and eventually contributed to the outbreak of devastating war.

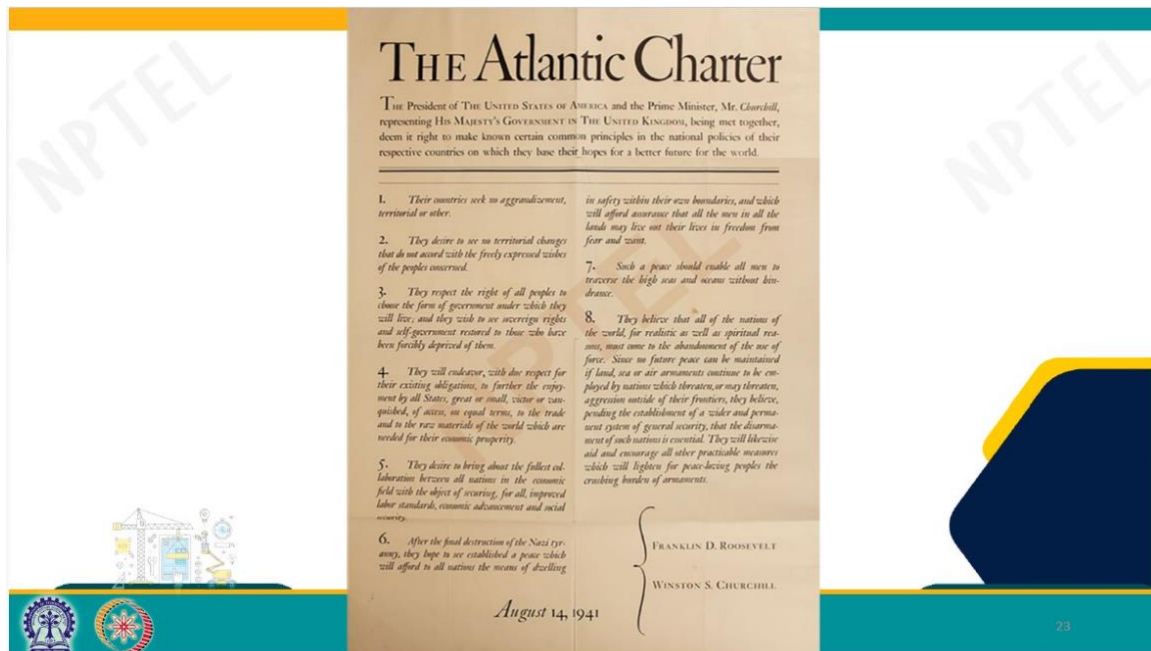


So, probably that may be the reason ITO was never came into effect. So, what we want to say is that the economic crisis has greatly affected the countries and the two world wars especially the second world war which was affected worsen the economic scenario in all the countries and also the unemployment has contributed. This unemployment and economic crisis contributed to the outburst of the devastating second world war

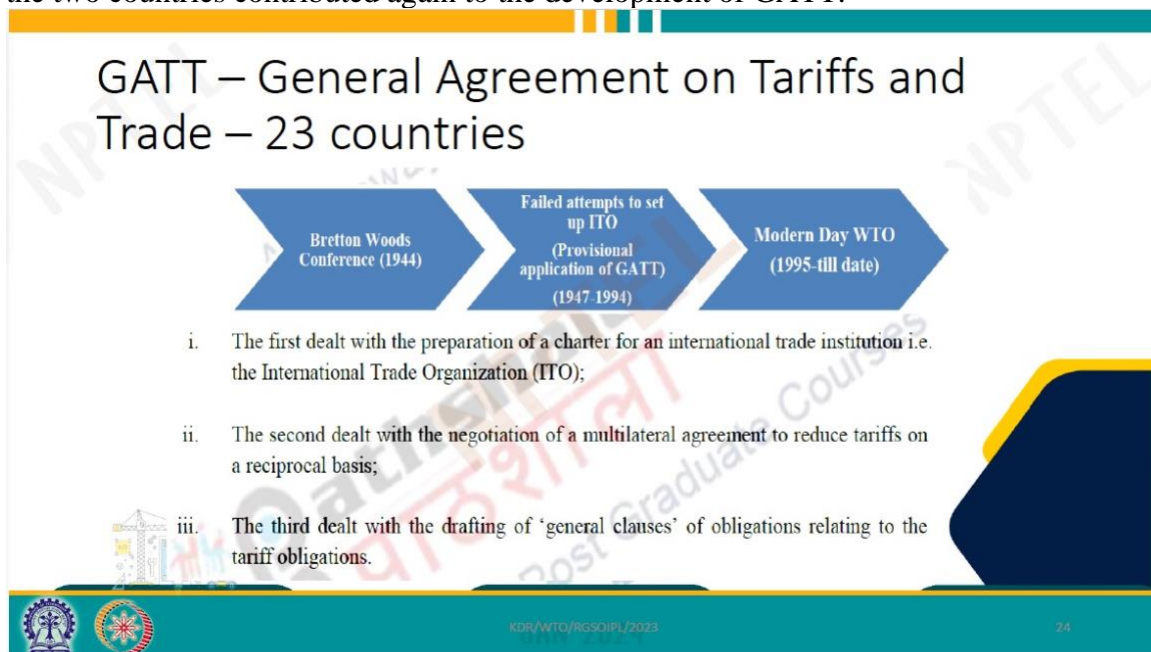
The Atlantic Charter was the springboard for remarkable achievements of multilateral international economic rule-making, including the General Agreement on Tariffs and Trade of 1947 and the Bretton Woods institutions (of the World Bank and International Monetary Fund).



and again we can see that immediately after the second world war. So, the some of the remarkable achievements through the international economic treaty making which was happened through this Atlantic charter and which ultimately end up in the general agreement on tariffs and trade 1947 as a part of the Bretton Woods Institutions. But ITO was never happened, but GATT was came into because of ITO never came into existence the GATT was established as an agreement and a small arrangement.



So, you can see the copy of the Atlantic charter which says Atlantic charter which the United States president what he says and also the prime minister the Winston Churchill also what they are talking about. So, the Atlantic treaty between US and UK which talks about the opening of economies at that point of time. So, the economic charter between the two countries contributed again to the development of GATT.



So, when countries to the establishment of the general agreement on tariffs and trade 23 countries participated 23 countries participated at that point of time. So, the Bretton Woods Institutions were established in 1944 except ITO the IMF was established the IBRD was established, but the ITO never came into existence mainly because of the non-cooperation of the United States.

So, if you look into from 1944 Bretton Woods Institutions and then it took another three more years to establish GATT in 1947 and then to 1994 the establishment of WTO then 1995 to till date the working of the WTO.

Death of ITO

- Obstacles in adopting ITO Charter.
- 1950-us announced that they won't sign the ITO charter.
- There are more than 32 bilateral agreements were entered into nations during 1943 and 45 for reduction of tariffs – origin of GATT agreements.
- Bretton Woods Conference held in 1944 to draft a charter for the IMF and International Bank of Reconstruction and Development (IBRD).
- The bilateral negotiations for reduction of tariffs were going on parallel along with ITO negotiations between 15 countries.



So, as I said that from 1947 even though the GATT was established in 1947 because the countries know that the ITO was never going to come up, but it took 3 more years to announce by the United States that they are not going to sign the ITO charter. Because even though many agreements many agreements were ended between nations for reducing the tariffs and even we look into these the GATT arrangement 45000 tariff lines are agreed upon between parties in GATT 1947. So, we know that through international agreement one international arrangement I would say that international arrangement of GATT there is a substantial liberalization of trade reduction of tariffs reduction of tariffs among the countries even though there was a moderate starting of 23 countries the number has increased.

GATT Established

- This first round of negotiations resulted in a package of trade rules and 45,000 tariff concessions affecting \$10 billion of trade, about one fifth of the world's total.
- The group had expanded to 23 by the time the deal was signed on 30 October 1947.
- The tariff concessions came into effect by 30 June 1948 through a "Protocol of Provisional Application".
- And so the new General Agreement on Tariffs and Trade was born, with 23 founding members (officially "contracting parties").



I have already said that 45000 tariff concessions were declared at that point of time it was worth 10 billion US dollars which was a huge amount at that point of time. So, this group of 23 definitely including the founding member India was one of the member at that point of time in GATT as well. Then it is there was a 'Protocol of Provision Application' and then the countries you know gradually increased the number of countries gradually increased.

Death of ITO

- The secretariat of the ITO worked for the GATT also.
- 1951 – US President Truman announced that they are not going to adopt ITO charter.
- This lead to the end of ITO.
- The staff worked for the ITO continued with the GATT and become the GATT secretariat.
- Thus the General Agreement on Tariffs and Trade become the only international body to deal with trade from 1947 to 1995.



So, in one way the death of ITO was an advantage to the GATT system the GATT agreement which reduced a number of tariffs and this arrangement a mere arrangement of GATT which has existed from 1947 to 1995 up to the end of Uruguay round of negotiations. So, it is ruled this for this particular agreement has ruled for a many period of time through different negotiation periods

GATT 1947

- Thus the GATT started working without any organizational structure.
- Commitments were attached as schedules for reducing tariffs.
- Provisional tariff reductions were implemented through GATT.
- Thus GATT was born with 23 countries agreed to implement the tariff reductions from 1st January 1948.
- 45000 tariff concessions worth \$ 10 billion about 1/10 of total world trade was agreed.



and different negotiations and we said that GATT was a watershed in the history of international trade because even it is only started with the 23 countries they have agreed to reduce to the tune of 45000 tariff concessions and you know at that point of time which amount to one tenth of the total world trade the concessions were not small at that point of time one tenth of the total world trade they were agreed upon

Key Principles

- Most Favoured Nation Treatment - Each contracting party to the GATT has to give all contracting parties with the same conditions of trade as the most favourable terms it extended.
- Reciprocity – principle of reciprocity mandates that the benefit of any bilateral agreement between contracting parties on tariff reductions or market access must be extended simultaneously to all contracting parties.
- Tariff Reduction – reciprocal reduction of tariffs.



and we come to this GATT why how it is happened and the I would say that it is happened through two important cardinal principles of GATT and these two cardinal principles are one is the most favored nation treatment and most favored nation treatment it is simply the name itself says. So, is that the most favorable times is to extended to everybody and then reciprocity the principle mandates that all the benefits should be

given to all contracting parties and reciprocal tariff reductions you also reduce I will also reduce.

So, the tariff reductions were put it as schedules. So, and the two cardinal principles in WTO we can see that the most favored nation treatment and national treatment principles are put it in WTO as the two cardinal principles. So, it is transferred from the GATT to the WTO.

The Emergence of GATT

- The US demand for the new multilateral system to be based on the "most favoured nation" (MFN) principle.
- With the proposed MFN clause, any privilege granted to any country would have to be granted immediately and unconditionally to all GATT contracting parties.
- US considered that the Commonwealth of States is protectionist in nature.
- As an ill-conceived response to the Great Depression of 1929, US Congress had passed the Tariff Act of 1930, better known as the [Smooth-Hawley Tariff Act](#), which had raised tariffs on more than 20,000 products.



So, the emergence of GATT and these cardinal principles played a crucial role in tariff concessions. So, this MFN treatment was mostly against the domestic laws like Smooth-Hawley Tariff Act of 1930 of the US. So, all these countries were forced to amend their domestic law these domestic laws were put additional duties.

So, these principles any domestic law which is against the principles of most favored nation treatment they have to amend it. So, the the countries like the United States or Canada they forced to amend their domestic laws in accordance with the most favored nation treatment.

British Policies

- Since the conclusion of the Franco-British Commercial Treaty of 1860, Great Britain had been the main upholder of the MFN principle.
- However, over time, it progressively developed a system where exports originating in the Commonwealth benefitted from lower tariffs than those applicable to third countries.
- Designed in 1898 as a means for commercial integration, imperial preferences progressively evolved into a complex protectionist array.
- As a response to the Great Depression and the introduction of the Smoot-Hawley Act in the US, the system had culminated in the "Ottawa System of Imperial Tariff Preferences" of 1932



So, if you look into. So, we already said that the British people were almost against the US policies and so the especially from. So, many treaties they starting with the Franco-British Commercial Treaty of 1860 the great Britain has argued for the most favored nation treatment, but the US was argued other way round they are through the you know even at the time of 1929 through the Smoot-Hawley Tariff Act they imposed more restrictions on import from UK and Canada.

So, the most favored nation treatment is one of the cardinal principles mainly because of the contribution of UK to the GATT principles. So, most of the commonwealth countries are benefited out of this most favored nation treatment. So, again you can see that you can say that the progressive integration of commercial or commercial integration of countries will happen only when there is no protectionist measures against each other. So, in response we already said that in response to the great depression in 1930 the US has made domestic laws and the UK also have made domestic laws even Canada also have made domestic laws. So, there is a conflict of interest between the great parties at that point of time those who are party to the second world war the UK and US at that point of time.

Different Agreements

- Cordell Hull had made the MFN clause the cornerstone of his reciprocal trade agreements program.
- Well before the end of World War II and the London discussions of 1946, the US had unsuccessfully tried to eliminate the British imperial preferences through different agreements, including the
 - "Atlantic Charter" of 1941,
 - the "Lend-Lease Agreement" of 1941, and
 - the "[Anglo-American Financial and Commercial Agreement](#)" of 1945.

So, quickly if you look into the different arguments we already said that the US secretary of state the Cordell Hull at that point of time. So, even though he argued for these MFN Clause. So, reciprocal trade agreements the US was forced to agree to the UK argument of MFN clause later on and also the some of the preferences trade with UK, the US was forced to remove it after the second world war. So, you can find some of the agreements like the Atlantic charter and then this Lend-Lease Agreement of 1941 then also the Anglo-American Financial and Commercial Agreement of 1945. So, all tariff concessions or bilateral trade agreements has been amended in order to comply with the GATT provisions later on.

British Position

- During the GATT negotiations, Sir Richard Stafford Cripps, President of the British Board of Trade, disagreed with the US vision as articulated by Cordell Hull.
- He strongly opposed the dogmatism of the "American free traders". For the UK, the immediate elimination of the "Ottawa System of Imperial Tariff Preferences" was a red line that could not be crossed, as it would severely impact the already weak post-war economies of the Commonwealth.

So, the British positions as I already said that the Sir Richard Stafford Cripps who was you know arguing for you know the upholding of MFN clause they very clearly said that

we are against American free traders and, but at the same time the most favorable nation treatment should be given to all the countries those who participate in the GATT system.

Clash of the GATT negotiators

VS.

Will Clayton
Lead US Negotiator

Sir Richard Stafford Cripps
Lead UK Negotiator

Roy Santana

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So, you can see these two people those who were you know arguing during the GATT period GATT negotiators from the US side this Will Clayton the US lead negotiator and Sir Richard Stafford Cripps, who was the UK negotiator, those who shaped the provisions of the GATT agreement. So, these people played a very crucial role in shaping the GATT agreement.

Differences

- Will Clayton, lead US negotiator, and Sir Richard Stafford Cripps, lead UK negotiator, profoundly disagreed on the level of ambition that had to be achieved by the GATT negotiations. So, what happened? How did they manage to overcome such a profound difference?

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So, as I told you that so here you know the even though there was difference of opinion between these two countries they came to a common platform of GATT 1947.

Economic Crisis during GATT Negotiations

- many of the countries negotiating the GATT faced acute balance of payments problems, including key markets such as the United Kingdom and practically all other European countries, which meant that the GATT would allow them to stop US exports.
- Even worse, the Protocol of Provisional Application contained a grandfather clause that would allow contracting parties to continue applying GATT-inconsistent legislation preceding the Agreement.

So, even you can find the there is economic crisis during GATT period especially during the 1970s you can find they faced acute balance of payment problems by some of the countries.

So, definitely the protocol provisions immediately came to existence and then the GATT inconsistent legislations were forced to amend by the countries in consonance with the GATT provisions.

Bretton Woods Institutions

- The General Agreement on Tariffs and Trade (GATT) traces its origins to the 1944 **Bretton Woods Conference**, which laid the foundations for the post-World War II financial system and established two key institutions,
- the **International Monetary Fund (IMF)** and the **International Bank for Reconstruction and Development (IBRD)**.
- The conference delegates also recommended the establishment of a complementary institution to be known as the **International Trade Organization (ITO)**, which they envisioned as the third leg of the system.

So, we already talked about the Bretton Woods Institutions. So, we are not going to discuss more about the Bretonwood institutions. So, out of three institutions the two institutions. So, the international monetary fund and international bank for reconstructions was came into effect.

ITO

- The United States and the United Kingdom spearheaded the initiative at the newly formed United Nations to draft a charter for the proposed ITO.
- These negotiations concluded with the signing of the **Havana Charter** in March of 1948.
- The Havana Charter never entered into force, primarily because the U.S. Senate failed to ratify it.
- As a result, the ITO was stillborn.

And unfortunately the ITO was never came into because of the US, the US policies and the Havana charter. So, the Havana charter has contributed to the development of the two existing organizations, the Bretton Woods Institutions that is you know one is the world bank and other one is the international monetary fund.

Death of ITO

- Obstacles in adopting ITO Charter.
- 1950-us announced that they won't sign the ITO charter.
- There are more than 32 bilateral agreements entered into nations between 1943 and 45 for the reduction of tariffs – the origin of GATT agreements.
- Bretton Woods Conference held in 1944 to draft a charter for the IMF and International Bank of Reconstruction and Development (IBRD).
- The bilateral negotiations for reduction of tariffs were going on parallel along with ITO negotiations between 15 countries.

and the ITO mandate was shifted to the GATT. So, we already said that these two institutions and the third institution was dead mainly because of the non-cooperation of United States.

Death of ITO

- The secretariat of the ITO worked for the GATT also.
- 1951 – US President Truman announced that they are not going to adopt ITO charter.
- This led to the end of ITO.
- The staff worked for the ITO continued with the GATT and became the GATT secretariat.
- Thus the General Agreement on Tariffs and Trade became the only international body to deal with trade from 1947 to 1995.



and the declaration of the US president Truman in 1951 that they are not going to sign the ITO charter at that point of time.

So, those who are it was easy for the transition. So, those who are worked the secretariate the entire secretariate work for the ITO was transferred to the secretary of GATT at that point of time. So, the people those who are familiar with the negotiations they become part of the GATT 1947 which was ruled from 1947 to 1995.

GATT

- Meanwhile, parallel negotiations were conducted on a multilateral agreement for reciprocal reductions in tariff barriers.
- These negotiations resulted in the signing of the GATT on November 30, 1947.
- A sufficient number of the signatory nations, including the U.S., ratified the GATT for it to enter into force on January 1, 1948, under a “**Protocol of Provisional Application**” while negotiations on the ITO charter continued.



So, we can find from there are lot of negotiations in between from 1947 to 1995 one by one.

GATT Established

- This first round of negotiations resulted in a package of trade rules and 45,000 tariff concessions affecting \$10 billion of trade, about one fifth of the world's total.
- The group had expanded to 23 by the time the deal was signed on 30 October 1947.
- The tariff concessions came into effect by 30 June 1948 through a "Protocol of Provisional Application".
- And so the new General Agreement on Tariffs and Trade was born, with 23 founding members (officially "contracting parties").



So, the GATT establishment was cornerstone of the international trade. So, we already talked about the tariff concessions and what was its effect. So, here we can see that the effect of GATT the formation of GATT was in the history of the watershed in the history of world trade organization the formation of world trade organization and you can see that the circumstances especially the first world war and the second world war contributed to the formation of the Bretton Woods Institutions out of three, two were came into existence and the third one was never came into existence that was the ITO, but the GATT was established and which lead to the you know lot of tariff concessions to the tune of 45000 and to the tune of even 10 billion US dollars at that point of time one fifth of the world trade at that point of time. So, GATT establishment was the opening of economies all over the world and tariff concessions all over the world and the GATT was never dead and presently also the GATT is a part of the WTO agreements.

So, we will stop here and the next class we will see the establishment of the WTO and from GATT to WTO and we will see in the next class.

Thank you.