

Breach in the pact

On the 70th anniversary (October 30) of the General Agreement on Tariffs and Trade (GATT), the multilateral system faces a challenge to its very foundations – from its chief architect. But the genesis of this predecessor agreement to the World Trade Organisation (WTO) holds important lessons for today's isolationist America under President Donald Trump. It was the U.S. which, since the midst of World War II, championed international cooperation as the only means to counter the rampant restrictive trade practices of the inter-war period.

This was no mean feat for a country that had legislated the notorious 1930 Smoot-Hawley Tariff Act. An ostensible move to protect agricultural products, the law raised import duties on some 900 goods, averaging about a 50% hike. To counteract its effects, Canada diverted exports away from its immediate neighbour and largest trading nation, to cash in on the imperial preferences under the British dominion. The retaliation to Smoot-Hawley was no less severe from Europe and Japan.

In its new incarnation, Washington emerged as a staunch votary of the GATT's so-called Most Favoured Nation principle. Under this non-discrimination provision, tariff concessions agreed by any two contracting parties would be extended immediately and unconditionally to all others. Given the reciprocal nature of commitments agreed among countries, the U.S. was forced to withdraw many of its proposed duty cuts at the 1947 Geneva conference. These proved to be far too ambitious for the British Commonwealth nations which, gripped by a balance of payments crisis, were unwilling to grant matching concessions. There were strong reactions among top U.S. diplomats against Britain's recalcitrance. The Truman administration, however, deemed it prudent not to walk away from the GATT negotiations in the larger interest of cementing the Western alliance at the beginning of the Cold War. Similarly, despite the incorporation of provisions against protectionism, GATT also codified exceptions that allowed countries to retain the old restrictions on imports for a time. The final Uruguay Round of GATT heralded its successor, the WTO, whose scope extends well beyond tariff reductions to trade in services and much else.

Seventy years on, there has been a rapid proliferation of bilateral and regional free-trade agreements around the world, raising concerns over trade diversion rather than generation. Even so, the erosion of the larger commitment to the post-war global liberal order has never been more pronounced than under the current Trump administration. The context to this regression is the populist tide against the opening of the U.S. market under the North American Free-Trade Agreement (NAFTA), portraying trade liberalisation as a zero-sum game. Similarly, the rhetoric on the surge in Chinese imports since Beijing's 2001 accession to the WTO seeks to play down the benefits of cheaper consumer goods and the opportunities in outsourcing and exports. Earlier this year, Washington quit the Trans-Pacific Partnership trading bloc, and continues to threaten taxes on overseas operations of domestic industries and astronomical import tariffs. But as long as the rhetoric does not move into the realm of real action, there is still hope that the damage could be undone.

The definition of harassment needs to be constantly updated, and the process for justice made more robust

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