

# MULTILATERALISM AND REGIONALISATION IN THE SECOND HALF OF XX<sup>TH</sup> CENTURY

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Abstract: I structured this study entitled "Multilateralism and regionalisation in the second half of XXth century", in eight chapters. Each of the first seven chapters is dedicated to one of the main institution and events that played an important role in the world economy:

the "Bretton Woods" conference

International Monetary Fund

International Bank for Reconstruction and Development

the "Bretton Woods" system

United Nations Conference on Trade and Development

General Agreement on Tariffs and Trade

World Trade Organization

In the chapter number eight I focused on the main regional trade blocks description

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The world economy evolved in the second half of the XX<sup>th</sup> century under the sign of multilateralism (globalization) and regionalization. These tendencies appeared as a logical consequence of the huge amplification of the interconnections, collaborations and interdependencies between the national states generated by the "need" of the economical objectives and interests to exceed the national borders. Today's financial crisis which affected most of the world's countries showed us that the global economical system is far from being perfect, but this issue is not the subject of this paperwork. We will further focus on the timeline of the historical events which led to the worldwide economical development as we know it today.

## **1. The "Bretton Woods" conference**

The very first step of the multilateralism transition process was made at the United Nations Monetary and Financial Conference also known as the "Bretton Woods" conference where participated more than seven hundreds representatives of forty-four nations in order to establish the new international financial rules after the end of the war. The conference was held in July 1944 at the Mount Washington Hotel in New Hampshire, Bretton Woods and had the main purpose to create open markets in order to encourage free trade and the movement of capital between the participant countries. In that period the international trade was almost inexistent because the tendencies of expansion of the national economies totally collapsed starting with the beginning of World War I, during the economical crises between the wars and in the World War II period. Most of the states were facing with incoherent economical policies, high unemployment rates, nationalism and were forced to develop protectionist measures that slowed the economical growth.

As a result of the debates that took place at this conference were put the bases of a new financial and monetary plan, which stipulated the following issues:

- the establishment of the International Monetary Fund (IMF) with a common capital raised from all member countries;
- the establishment of the International Bank for Reconstruction and Development (IBRD);
- the establishment of the "Bretton Woods" monetary system;
- the creation of an International Trade Organization (ITO) in order to adjust the main rules for international trade.

However the International Trade Organization was never established because the US Senate did not ratify the ITO statute and as a result the rules and regulation of the international commerce were included in the General Agreement on Tariffs and Trade (GATT) which is an international multilateral treaty but unlike the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) it is not a specialized UN international organization.

## **2. The establishment of the International Monetary Fund (IMF)**

The primary goal of the International Monetary Fund was to reconstruct the international payment system of the world and to bring balance to the exchange rates. The member countries contributed to a common fund which can be used as a temporary loan by the countries with payment imbalance. The bases of the International Monetary Fund were officially put at 27 December 1944 when the agreement was signed by 29 states. After the fund became operational, its influence into world economy continuously increased and year by year the International Monetary Fund gained more financial power and enlisted new member countries.

The International Monetary Fund played a key role into:

- the reconstruction process after the World War II;
- the oil shocks of the 1970's;
- financial support for the poor countries;

- support for the ex-communist countries being in transition to the capitalist economy;

Because both gold and dollar has proved to be limited in handling of the international accounts process, in 1969 the International Monetary Fund created a special type of currency called Special Drawing Rights (SDR), designed to be used in international trade and finance.

A total of 185 countries are members of the International Monetary Fund. Almost all UN member countries are also members of the IMF. Today, the International Monetary Fund supports a large number of countries in order to exceed the world financial crisis that started in 2008.

### **3. The establishment of the International Bank for Reconstruction and Development (IBRD)**

The International Bank for Reconstruction and Development was originally designed to support the nation devastated by the World War II in their reconstruction process. European states and Japan were the primary beneficiaries of the bank and the funds were used for large investments such as building of airports, roads and speed highways, thermal power station or hydroelectrically power plants. Later the activity of the International Bank for Reconstruction and Development was focused on the developing countries and after 1990 year, on the support for the ex-communist countries and the services offered has been diversified and became more focused on the socio-human component.

### **4. The implementation and the crisis of the "Bretton Woods" monetary system**

Ensuring a free convertibility of national currencies it is an indispensable condition in order to create viable open markets and to achieve the necessary environment for free international trade. Before the World War II, the international monetary transactions were made using *gold standard*. Each currency was considered equal to a certain quantity of gold according to a fix exchange rate. In theory this system are able to correct any disequilibrium by increasing or decreasing the quantity of money available to spend.

Between the world wars the British pound was also used in international transactions because the British economy was extremely well developed and as a consequence the British currency was strong enough to supplement the use of gold in international commerce. However during the World War II the British economy was devastated and the pound could not longer be used as primary trade currency.

Considering that the fixed exchange rates was the first priority of the Bretton Woods conference participants but the classical gold standard system was outdated (gold production was not nearly enough for covering the increased volume of international trade), US dollar remained the only candidate for the international trade prime currency.

As a consequence, at the Bretton Woods conference were put the bases of an exchange system much similar with the gold standard system in which the US dollar played the role of the reserve currency. United States of America agreed to exchange US dollars into gold at fixed exchange rate of 35 USD per ounce. On the other side the other

participant countries agreed to maintain constant exchange rates (plus or minus 1%) and if case to made direct interventions trough buying or selling US dollars.

At the beginning of 1970's this system became hard to sustain because of the huge development of the private international financial system and also because the dollar became more and more overevaluated. In August 1971 the United States of America suspended the convertibility of the dollar into gold and this represented the end of the Breton Woods financial system.

The failure of the Bretton Woods system conducted to a "financial freedom", each state having the liberty to apply any measure considered necessary in order to ensure a proper exchange of currency. This period favored the appearance of formations such as the monetary unions and currency blocks.

### **5. The establishment of United Nations Conference on Trade and Development (UNCTAD)**

At the beginning of the 1948 year was organized, at Havana, from the initiative of the United Nations, a conference regarding the world trade problems. There was adopted the Havana Carta - the statute of the future International Trade Organization which was designed as an UN specialized institution in the matter of world trading and international investments.

When the attempt of ITO's establishment had prove to be a total failure United Nations General Assembly decided to convoke the member states in order to put the bases of an UN organ meant to extend the international economic cooperation and to attenuate the big differences between the developed countries economies and the developing countries economies, or in other words to achieve the objectives that should have been completed by the ITO.

In 1964 United Nations Conference on Trade and Development (UNCTAD) was founded as an intergovernmental institution with permanent statute. The main goal of UNCTAD was to promote multilateral negotiations between developed countries and the developing countries as follows:

- by initiating measures that favor the expansion of world trade in order to increase economical power of all countries, especially of developing countries.
- trough measures that encourage the commerce between countries with different level of economical development
- creating international trade policies in accordance with the differences between economies of the developed countries and developed countries.
- coordination of other UN institutions involved in international trade activities
- creation of international juridical tools regarding the world trade.

### **6. The establishment of General Agreement on Tariffs and Trade (GATT)**

As we already said above, the General Agreement on Tariffs and Trade (GATT) was founded because the negotiations for International Trade Organization failed. At that time fifteen member states already began negotiations for GATT establishment in order create an interim tool for international commerce until the establishment of the ITO. Since this never took place the interim period was extended until 1994 when the World

Trade Organization was created. General Agreement on Tariffs and Trade was initially founded as a part of the plan for economic recover after World War II in order to create an optimal environment for the expansion of the international trade. At 30 October 1947 twenty three countries signed the agreement: Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, the Republic of China, Cuba, the Czechoslovak Republic, France, India, Lebanon, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Syria, South Africa, the United Kingdom, and the United States.

Basically the reduction of the tariffs took place in successive rounds of multilateral negotiation based on non discrimination principle and unconditioned appliance of the *most favored nation* clause. The mechanism of this negotiations implied three steps:

- in the first stage of the mechanism the member states must present the requests for tariffs reductions in order to be analyzed;
- in the second stage the offers of the tariffs reductions are presented as a response to the initial requests;
- in the final step the actual negotiation take place.

During the entire period in with GATT operated, eight such negotiation rounds took place as follows:

a) - *the first round at Geneva - 1947* - was the round in which GATT was actually created. The negotiations took place following the so called "bimultilateralism technique". According to this the reduction of tariffs was negotiated in the first place between the two co-interested states an then extended to the rest of the participants based on the *most favored nation* clause. This way of negotiation was also known as "country by country, product by product" technique.

In this round was made over 45000 tax reductions.

b) - *the second round at Annecy - 1949* - the amount of the tariffs reductions made in this round was considerably smaller that the one from the first round: only about 5000 tax concessions were made. The main cause for this was that the countries that had big trade tariffs did not agreed to reduce it.

c) - *the third round at Torquay - 1950-1951* - in this round the negotiation process has prove to be very difficult because in almost all countries the reconstruction after the war damages was finished an the battle for supremacy in international market began between the main actors. For this reason the number of the trade tariffs reduction was about 8700 which is relatively small.

d) - *the fourth round at Geneva - 1955-1956* - was the most unproductive negotiation round ever, only about 4300 trade tariffs concessions being made.

e) - *"Dillon" round - Geneva - 1960-1961* - this round faced with new conditions: European Economic Community (EEC) was already founded and the member countries intended to adopt an unique tariff for external trade. Because of these new circumstances this round was also unproductive and only 4400 concessions were made.

f) "*Kennedy*" Round - Geneva - 1964-1967 - this round was held at the initiative of USA and EEC . The United States of America proposed a 50% reduction of all trade tariffs during the next 5 years. After long debates member states accepted to reduce with 35% the amount of trade taxes for about 6300 products, in a 5 year period. For the first time were discussed the following issues:

- non rate commercial policy obstacles and antidumping measures (an antidumping code was adopted);
- liberalization of the trade with agricultural products;
- developing countries problems.

g) "*Tokio*" Round - 1973-1979 - unlike the other negotiation rounds, in this one was invited representatives from the countries non-member of GATT. Also the debates were not limited to the trade tariffs reduction and covered a large area of important issues like: reduction or elimination of all custom barriers in the trade with industrial products, revision of salvagation clause, a new antidumping code, international trade with agricultural products, international trade with developing countries, etc.)

h) The longest and the most important negotiations round of the General Agreement on Tariffs and Trade is the *Uruguay round* and took place in 1986-1993 period. The main achievements of this round were the followings:

- the liberalization of international trade was continued;
- GATT rules were improved and also extended to some traditional domains such as clothing and agricultural products that at that time were uncover by the treaty;
- agreements regarding the trade with services and also regarding the intellectual rights;
- the establishment of the World Trade Organization

After the creation of World Trade Organization, the General Agreement on Tariffs and Trade was no longer a self sustained institution and became a part of WTO.

## **7. The activity of World Trade Organization (WTO)**

Created during the Uruguay round, the World Trade Organization was designed as an open negotiations forum with continuous activity. WTO agreement also stipulate the establishment of a Dispute Settlement Understanding (DSU) system.

There are several fundamental differences between World Trade Organization and the General Agreement on Tariffs and Trade. Unlike GATT the operating area of the WTO includes the trade with services, investments and intellectual property rights. Also WTO have a permanent statute while GATT was only an interim agreement despite the long period of time it operates.

WTO organized several conferences as follows:

a) WTO's *ministerial conference from Singapore -1996* - it was the first international conference regarding world trade after the Uruguay Round and gathered 128 member states and 28 observer countries. Debates were focused on the how the agreements from the last negotiation round were applied, analysis of the main trade

sectors, commerce and environment issues, liberalization of the trade with pharmaceutical, chemical and IT products.

b) WTO's *ministerial conference from Geneva - 1998* - had as main objective the celebration of 50 year from GATT establishment.

c) WTO's *ministerial conference from Seattle -1999*

d) WTO's *ministerial conference from Doha - 2001* - This was probably the most important conference of the World Trade Organization. A new development plan was established here for the participant countries, plan known as the Doha Development Agenda.

e) WTO's *ministerial conference from Cancun - 2003*

## **8. The regional trade blocks**

Regionalization is seen by many experts as being a process complementary with globalization. However, the first attempts for the establishment of a regional trade organization took place in Europe and the main reason for it was that the process of reconstruction after the war's damages needed a united Europe. The governments of the European countries understood this but despite their joined efforts, the unification process was a long term one and also a very complex one and required several important steps. Here is the timeline of the most important events that led to the establishment of the European Union, the most important regional block:

- 1949 - the Council of Europe was established having as main objective the promotion of the political and social unity in Europe.

- 1952 - the Treaty of Paris was signed by France, Germany, Luxembourg, Italy, Belgium and Netherlands. As a result the European Coal and Steel Community was founded in order to find technological solution for an increased production of coal and steel and to distribute it in the same way for all member countries.

- 1957 - the European Economic Community and the European Atomic Energy Community were formed.

- 1960 - as a reaction at the creation of EEC, Austria, Denmark, Swiss, United Kingdom, Norway, Portugal and Sweden put the bases of the European Free Trade Organization (EFTA) through the Treaty of Stockholm

- 1981 - Spain join to EEC;

- 1986 - Portugal join to EEC;

- 1993 - The European Union was created through the Treaty of Maastricht.

After the huge success of the European Union, the United States of America initiated the regionalization process into North American continent. As a result, USA, Canada and Mexico created the North American Free Trade Agreement (NAFTA).

Today, UE and NAFTA are the most powerful regional trading blocks.

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