**Objectives and Evolution of GATT**

The General Agreement on Tariffs and Trade was a [free trade agreement](https://www.thebalance.com/free-trade-agreement-types-and-examples-3305897) between 23 countries that eliminated [tariffs](https://www.thebalance.com/tariff-pros-cons-and-examples-3305967) and increased [international trade](https://www.thebalance.com/international-trade-pros-cons-effect-on-economy-3305579).1﻿ It was the first worldwide [multilateral free trade agreement](https://www.thebalance.com/multilateral-trade-agreements-pros-cons-and-examples-3305949).2﻿ It was in effect from January 1, 1948 until January 1, 1995. It ended when it was replaced by the more robust [World Trade Organization](https://www.thebalance.com/what-is-the-world-trade-organization-wto-3306366).

## Purpose

The purpose of GATT was to eliminate harmful [trade protectionism](https://www.thebalance.com/what-is-trade-protectionism-3305896). That had sent global trade down 66% during the [Great Depression](https://www.thebalance.com/the-great-depression-of-1929-3306033).4﻿ GATT restored economic health to the world after the devastation of the Depression and World War II.

## Objectives of GATT

The General Agreement on Tariff and Trade was a multilateral treaty that laid down rules for conducting international trade. The preamble to the GATT can be linked to its objectives.

1. To raise the standard of living of the people,

2. To ensure full employment and a large and steadily growing volume of real income and effective demand.

3. To tap the use of the resources of the world fully.

4. To expand overall production capacity and international trade.

## Principles of GATT

For the realization of the above mentioned objectives, GATT adopted the following principles.

1. **Non Discrimination,**
2. **Protection through tariffs,**
3. **A stable basis of trade, and;**
4. **Consultation**

### 1. Non Discrimination

The international trade should be conducted on the basis of nondiscrimination. No member country shall discriminate between the members of GATT in the conduct of international trade. On this basis, the principle “**Most favored Nation**” (MFN) was enunciated. This means that “each nation shall be treated as good as the most favored nation”. All contracting parties should regard others as most favorable while applying and administering import and export duties and charges. As far as quantitative restrictions are concerned, they should be administered without favor.

### 2. Protection through tariffs only

GATT rules prohibit quantitative restrictions. Domestic industries should be protected only through customs tariffs. Restrictions on trade should be limited to the less rigid tariffs.

### 3. A stable basis of trade

GATT seeks to provide a stable and predictable basis for trade. It binds the tariff levels negotiated among the contracting countries. Binding of tariffs prevents the unilateral increase in tariffs, But still there is a provision for renegotiation of bound tariffs. A return to higher tariffs is discouraged by the requirement that any increase is to be compensated for.

### 4. Consultation

The member countries should consult one another on trade matters and problems. The members who feel aggrieved that their rights under GATT are withheld can call for a fair settlement. Panels of independent experts have been formed under the GATT council. Panel members are drawn from countries which have no direct interest in the disputes under investigation. They look into the trade disputes among members. The panel procedure aims at mutually satisfactory settlement among members.

## Evolution of GATT

GATT grew out of the [Bretton Woods Agreement](https://www.thebalance.com/bretton-woods-system-and-1944-agreement-3306133).6﻿ The summit at Bretton Woods also created the [World Bank](https://www.thebalance.com/the-purpose-of-the-world-bank-3306119) and the [International Monetary Fund](https://www.thebalance.com/what-is-the-imf-its-role-and-functions-3306115) to coordinate global growth.

The 50 countries that started negotiations wanted it to be an agency within the [United Nations](https://www.thebalance.com/what-is-the-united-nations-and-how-does-it-work-3306118) that would create rules, not just on trade, but also employment, commodity agreements, business practices, [foreign direct investment](https://www.thebalance.com/foreign-direct-investment-fdi-pros-cons-and-importance-3306283), and services. The ITO charter was agreed to in March 1948, but the [U.S. Congress](https://www.thebalance.com/u-s-congress-definition-duties-effect-on-economy-3305980) and some other countries' legislatures refused to ratify it. In 1950, the Truman Administration declared defeat, ending the ITO.

At the same time, 15 countries focused on negotiating a simple trade agreement. They agreed on eliminating trade restrictions affecting $10 billion of trade or a fifth of the world’s total. Under the name GATT, 23 countries signed the deal on October 30, 1947. It was put into force on June 30, 1948. GATT didn’t require the approval of Congress. It was technically just an agreement under the provisions of the U.S. Reciprocal Trade Act of 1934. It was only supposed to be temporary until the ITO replaced it.

Throughout the years, rounds of further negotiations on GATT continued. The main goal was to further reduce tariffs. In the mid-1960s, the [Kennedy](https://www.thebalance.com/president-john-f-kennedy-s-economic-policies-3305560) round added an Anti-[Dumping](https://www.thebalance.com/what-is-trade-dumping-3305835) Agreement.9﻿ The Tokyo round in the seventies improved other aspects of trade. The Uruguay round lasted from 1986 to 1994 and created the World Trade Organization.

### GATT and WTO

GATT lives on as the foundation of the WTO. The 1947 agreement itself is defunct. But, its provisions were incorporated into the GATT 1994 agreement. That was designed to keep the trade agreements going while the WTO was being set up. So, the GATT 1994 is itself a component of the WTO Agreement.

From 1948 until 1993, GATT’s purview and membership grew dramatically. During this period, GATT sponsored eight trade rounds where member nations, called contracting parties, agreed to mutually reduce trade barriers. But trade liberalization under the GATT came with costs to some Americans. Important industries in the United States such as textiles, television, steel and footwear suffered from foreign competition and some workers lost jobs. However, most Americans benefited from this growth in world trade; as consumers they got a cheaper and more diverse supply of goods, as producers, most found new markets and growing employment. From 1948 to about 1980 this economic growth came at little cost to the American economy as a whole or to American democracy (Aaronson, 1996, 133-134).