

On Taiwan: Don't take the bait on the WTO; it's a good thing

Walter Lohman

June 17, 2019

Many of the most hawkish takes on China emanating from Washington, DC, of late include a take-down of the World Trade Organization (WTO). It is usually not very well-resourced. In fact, for many, it is just a way to discard alternatives to the current trade war with China. For them, the imposition of new tariffs is not really a means to a "fairer" US-China trading relationship; it is the end. No one is going to change their minds about the WTO.

The real problem is that so many better thinking people just go along with the narrative.

Friends in Taipei shouldn't.

The WTO is a good thing. It was right to have admitted China. And it benefits Taiwan.

If there were no WTO, we would have to invent one. It embodies its members' detailed commitments to freer trade and provides a venue to both enforce those commitments and to improve them. There is an undeniable need for WTO reform. Each member negotiated its way into the organization. They did so on trade-offs that were equitable at the time. Looking back, based on current trade patterns, were they good bargains? For the US and Taiwan, yes, even today. But economies change and international institutions need to adapt if they are to fully deliver.

This should not be a controversial observation. The WTO itself is a result of trade patterns and modes of protectionism having outrun international rules. By the late 1980s, its predecessor, the General Agreement on Tariffs and Trade (GATT), no longer addressed the most significant obstacles to trade. Issues included export subsidies, export restraint agreements, infringements of intellectual property rights, insufficient enforcement and trade-related investment rules. GATT didn't apply to trade in services.

Will a new negotiation be difficult? Darn right it will. It will be a 164-sided negotiation in which the greatest challenge to the current system — China — is also the world's number one trading nation. (By the way, the Indians won't be so easy to deal with either.) But the potential benefits of a new WTO round far outweigh a descent into an all-against-all trading regime in which every state seeks unilateral advantage through application of its domestic law.

With regard to China specifically, the US would be much better off addressing its complaints through the WTO, both by use of its dispute settlement process and through negotiated reforms. The extent of WTO jurisdiction over the scope of America's complaints — although certainly wider than the Trump Administration maintains — is legitimately disputed. But by bringing a comprehensive case, the US would put the organization to the test and expose areas most in need of new commitments by its members. There is no doubt it would find others to support the case.

The response to this argument is inevitably that the Chinese don't abide by WTO rulings. But this is just plain wrong. The Cato Institute last year put together a matrix spelling out China's record. It found that out of 22 completed cases against China, "with one exception where a complaint was not pursued, China's response was to take some action to move toward greater market access" in all of them. There were no cases, Cato's researchers say, in which China simply ignored the rulings.

The fall back argument is, "OK, but the process takes too long." Depends what you measure it against. It takes about 3 years on average between the time a complaint is filed and the Chinese take remedial action. Not short. A lot of things can happen with a business in three years. But the US has been at its current unilateral approach for two years already. Assuming its new tariffs are intended to leverage China into a broader agreement — and not an end unto themselves — so far they have failed.