



US shouldn't leave the WTO over China

Simon Lester

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Sen. Josh Hawley (R-Mo.) recently argued that the World Trade Organization "should be abolished." He has now softened that demand a bit (perhaps recognizing that the United States does not actually have the power to abolish the WTO, which has 163 other members), by introducing a joint resolution in Congress for the United States to withdraw from the WTO. This would be a mistake. Americans benefit enormously from U.S. membership in the WTO, and the U.S. economy and U.S. global leadership would be diminished if we withdrew.

Part of the problem with Hawley's argument is that he misunderstands some of the current and past rules of the trading system. He seems to long for the pre-WTO system when he says, "[f]or nearly 50 years before the WTO's founding, the United States and its allies maintained a network of reciprocal trade that protected our national interests and the nation's workers." But then he complains that the WTO did "next to nothing to stop Chinese theft of American intellectual property and products." In fact, the pre-WTO system had no special rules on intellectual property, whereas the WTO has a detailed agreement in this area, offering extensive protections for patents, copyrights and trademarks. If it's strong intellectual property protection he is looking for, he should not want to return to the pre-WTO system.

But putting this and other errors aside, Hawley's real concern is China. On this he says: "The only sure way to confront the single greatest threat to American security in the 21st century, Chinese imperialism, is to rebuild the U.S. economy and to build up the American worker." What he seems to want is a trading system without China in it: "The United States must seek new arrangements and new rules, in concert with other free nations, to restore America's economic sovereignty and allow this country to practice again the capitalism that made it strong."

The integration of China into the world trading system has been a challenge, and there are some difficult issues that must be dealt with. The key questions for U.S. policymakers are: Is the United States better off with China inside or outside the WTO? And if China is in the WTO, how can its trade policy practices be disciplined?

The problem with not having China in the WTO is that its trade barriers would likely be much higher. China began negotiating its accession to the WTO's predecessor organization, the GATT, in 1986, and the negotiations continued at the WTO with its creation in 1995. It was a long process that culminated in an agreement on accession terms with the United States in 1999, and entry into the WTO in 2001. As part of this accession negotiation, China agreed to lower its tariffs considerably (by one measure, China's average tariffs came down from 43.7 percent in 1988 to 15.3 percent in 2001, and then further to 9.8 percent in 2010). In addition, China was now subject to the full range of WTO obligations, as well as many additional obligations in the Accession Protocol that only apply to China.

Did China live up to all of its promises? No, but no government ever does. Importantly, however, when other governments filed WTO complaints against China, China did a reasonably good job of complying, or as good a job as other governments anyway--there are no saints here. That may seem odd for an authoritarian country, but knowing that other governments had doubts about its membership, China probably wanted to signal that it would behave appropriately.

However, for whatever reason (perhaps because they believed it would be difficult to gather the necessary evidence), governments did not challenge many Chinese government actions that appear to be covered by the accession agreement, such as the behavior of China's state-owned enterprises. That has left big holes in the application of WTO rules to China.

Rather than try to fill those holes, the Trump administration has imposed unilateral tariffs on imports from China, mostly ignoring the WTO's possible role in disciplining China. China responded predictably, by imposing tariffs of its own on U.S. products.

That brings us back to our choices: China inside or outside the system; and if China is inside, how to respond to its trade practices. If China is outside the system, we almost certainly end up with higher Chinese tariffs, fewer disciplines on regulatory trade barriers, and less stringent intellectual property protection. It's hard to see how that is a win for Americans.

But if China is inside the system, how do we get better compliance? Since 2001, China has become much wealthier, and it is reasonable to demand that China liberalize more. But unilateralism doesn't work here. The right way for the United States to make that demand would be as part of a joint effort with other major trading nations who are also affected by Chinese trade practices. Instead, however, the Trump administration has waged trade wars with most of those governments. Hawley talks about working "in concert with other free nations." That would be great, but that is the opposite of the Trump administration's approach, as it continues to threaten tariffs against our close allies.

Hawley's resolution for WTO withdrawal may be designed to make a political point. He probably does not expect an actual withdrawal. But if his larger goal is to press China to liberalize, there are ways to do it. However, leaving the WTO is likely to have the opposite effect.

Simon Lester is the associate director of the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies.