



Why China's entry into the WTO has been good for the U.S.

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Pining for the glory days of the past is a common human frailty (“Remember how great things were back in the 1950s?”), but it turns out that when you look closely, things weren’t actually so great.

This is playing out right now in trade policy, with some handwringing over the 2001 decision to admit China to the World Trade Organization. Last week, the U.S. Trade Representative’s office issued a report on China’s WTO compliance, which led to a flurry of headlines such as “U.S. says China WTO membership was a mistake.”

But were things really so great before China was in the WTO, and would they be better if it wasn’t?

When China was admitted, the U.S. Trade Representative’s office explained the significant changes China agreed to make to its economy in order to join the WTO. China would become more transparent, in part by translating all laws, regulations or other measures, at all levels of government, relating to trade in goods or services into one or more of the official WTO languages (English, French and Spanish). It would reduce tariffs considerably — for example, tariffs on autos fell from 80%-100% to 25%. Finally, China would open many of its services sectors to foreign competition for the first time.

All of these changes were significant liberalization steps and made it easier for foreign companies to sell in the Chinese market.

Just as importantly, in joining the WTO, China agreed to a set of rules to settle complaints about areas in which its market remained closed.

Over the years, the United States brought complaints on a wide range of issues, with a fair amount of success. This is documented in the report the U.S. Trade Representative’s Office just issued on China’s WTO compliance. To give several examples, China removed export quotas and duties on several raw-material inputs of interest to the U.S. steel, aluminum and chemicals industries; China terminated export subsidies provided to manufacturers and producers in seven industries; and China removed importation and distribution restrictions applicable to copyright-intensive products.

It is hard to see how things would be better if China had not joined the WTO and had maintained the substantially higher levels of protectionism it practiced before joining. Granted, there are

other ways for the United States to address trade barriers, such as unilateral action under Section 301 of the U.S. Trade Act of 1974, but those have not worked well against other countries in the past, and it is not clear why they would work any better against China now.

The WTO dispute procedures have been effective, and the best approach to dealing with most concerns about the Chinese market would be to use the WTO dispute system to intensify efforts to pry that market open further.

But that doesn't mean everything is perfect. There are gaps in the WTO's rules, and some Chinese practices may fall through the cracks. Note that the U.S. Trade Representative's complaints about China's WTO membership are actually more nuanced than the headlines suggest. It's not that China should not be in the WTO at all, but rather that China's terms of entry to the WTO are a problem.

To address this issue, the United States should work closely with other countries. America is not the only country affected by China's protectionism, and a coordinated effort would be the best way to challenge China to liberalize more. This applies to disputes and to negotiations that might yield additional trade obligations.

People might question why China would accept new obligations. However, there is a reasonable basis for demanding this. When China entered the WTO, it was relatively poor, and thus was allowed to take on more-limited commitments. As it becomes richer, it should raise its participation to a level commensurate with its wealth. Of course, China cannot agree to a new arrangement where it is the only one making concessions. It needs something in return. But the Chinese leadership should not dismiss out of hand a demand that they do more.

And crucially, China has a strong interest in having a trading system that works, as Monday's decision by the United States to impose tariffs on solar panels from China and other countries demonstrates.

If China wants to ensure that trade barriers such as these are not used an abusive manner, it will need a trade regime that can provide effective oversight. In order to be sure the existing trading system is there when it needs it, China might need to commit to more than it has so far.

China's emergence as an economic power has been disruptive, and there may be some people longing for the old days, when China was poor and did not trade much. This is misplaced nostalgia. China's development, industrialization, and integration into the world trading system have been, on balance, good news for the American economy.

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