

The U.S. Should Make Greater Use of the WTO, Not Withdraw

Riley Walters

KEY TAKEAWAYS

While healthy debate over the costs and benefits of trade should be welcome in Congress, actual withdrawal from the WTO would cost Americans billions of dollars.

The WTO is not a perfect institution and warrants criticism and oversight. The U.S. should work harder to reform the institution, not withdraw from it.

Instead of withdrawing, Congress should consider ways to take greater advantage of the WTO and work with free trade allies to address China's abuses of the system.

Every five years, under U.S. law, Congress may consider whether to withdraw the U.S. from the World Trade Organization (WTO). This consideration is now ripe—at the same time the world grapples with the health and economic impact of COVID-19. A healthy debate over the costs and benefits of trade should, as always, be welcome in Congress; however, actual withdrawal from the WTO would cost Americans billions of dollars at a time when America most needs it.

Background

In recent years, the WTO has taken on an outsized role in debates about trade, and both supporters and detractors have been guilty of exaggerating the organization's importance. The WTO is not a global governing body, directing flows of goods and services

This paper, in its entirety, can be found at <http://report.heritage.org/ib5075>

The Heritage Foundation | 214 Massachusetts Avenue, NE | Washington, DC 20002 | (202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

around the world or even setting and enforcing trade policies on its members. Its actual role is far more limited, as a forum of negotiation and a venue for the resolution of disputes between its members. It has no independent power to enforce its decisions.

The WTO has proven to be a useful tool for the United States and other countries in promoting fair and mutually beneficial trade among its members. U.S. businesses and consumers have benefitted enormously from voluntary participation in its negotiations and mediation exercises.

In addition to hurting the fragile state of the U.S. economy, withdrawal would undo many economic gains over the past few years, not to mention damage decades' worth of employment and investment in current supply chains.

Congress should instead consider ways to take greater advantage of its WTO agreement. Congress should push the Trump Administration and other governments to uphold their WTO commitments. And where Congress feels the WTO is lacking, for example, when countries like China are gaming the system, it should work with free trade allies to reform the institution and address China's abuses of the system.

U.S. Views of the WTO and Trade

In 1995, the U.S. led the establishment of the WTO. Since then, U.S. sentiment toward trade has ebbed and flowed, but generally has grown more positive. As of early 2020, 79 percent of Americans considered trade an opportunity for economic growth.¹ Only 19 percent considered trade a threat to the economy. In the past, sentiment toward trade has only grown negative during times of economic disruption, such as after China joined the WTO in 2001 and during the 2008 financial crisis.² But we have yet to see an increase of negative sentiment toward trade during the current crisis.

Criticisms of the WTO are not new. Previously, critics have called out the institution for failing to address certain concerns, such as the effects of state-owned enterprises, intellectual property theft, or lack of investment rules. Others have called out the WTO as being inefficient, as its dispute-settlement process can sometimes take years. Others have blamed the institution for less relevant concerns, such as the rise in China's economy or disruptions to U.S. manufacturing employment in the early 2000s.

Many of these criticisms are based on a misunderstanding of what the WTO can do and lamentation over what critics think it should be doing. A better understanding of the limitations of the WTO might prompt a better debate over trade.

Withdrawing from the WTO

According to the Uruguay Round Agreements Act,³ Congress may submit a joint resolution withdrawing its approval of the WTO Agreement every five years. Resolutions were submitted in the House of Representatives in 2000 and 2005. However, each failed after 80 percent of members voted against these resolutions.⁴ A resolution has never been submitted in the Senate.

Much like withdrawal, Congress must approve all U.S. trade agreements. And the WTO is by far the U.S.'s largest trade agreement. The institution is made up of 164 members and covers 98 percent of global trade.⁵ Meanwhile, the U.S. only has preferential trade agreements with 21 countries, including a recent trade agreement with Japan, and has recently begun negotiations for a trade agreement with the United Kingdom. The Phase One agreement with China is not a trade agreement in the same sense: It is a bilateral settlement of disputes.

On an annual basis, 32 percent of the U.S. economy (as measured by gross domestic product) relies on the flow of goods and services through trade. Overall, the U.S. economy has experienced a 1.45 percent *increase* in welfare because of its membership in the WTO.⁶ But a recent estimate suggests that a total disintegration of trade agreements including the WTO could cost the global economy \$2.7 trillion.⁷ Given that U.S. economic growth already decreased 4.8 percent in the first quarter of 2020, and now with 14 percent unemployment, such a massive disruption to U.S. trade would be dangerous.

As for the rest of the world, while the U.S. is one of the world's largest sources for trade, leaving the WTO would not mean an end to the WTO. Other members, such as China and the European Union, would continue to reap the benefits of preferential trade with each other as the U.S. races to negotiate and codify into U.S. law new trade agreements. It has taken the Trump Administration over three years to negotiate and implement two trade agreements with our friends in Mexico, Canada, and Japan. Other countries may prove more difficult in negotiating new trade agreements.

China and the WTO

China's membership in the WTO poses major problems for the organization. In fact, much of the reform needed by the WTO revolves around the challenges China presents, from the power of its state-owned companies and its massive state subsidies to forced technology transfer and the developing-country status that affords it preferential treatment.

China's state-led economic model was not a problem when it truly *was* a developing country. Now that China is the second-largest economy in the world, it is. Working with its allies, the U.S. absolutely must address these contradictions.

To be clear, however, one place China is not generally a problem is one that touches directly on the WTO's current core competencies: dispute settlement. Of the 124 complaints the U.S. has filed against other countries, China was the recipient only 23 times. The U.S. has also joined WTO members nine other times in their complaints against China. The U.S. usually wins its complaints, and China abides by the WTO's judgments.⁸ This process needs to be sped up, but throwing it away would hurt the U.S.—not China.

On the other hand, if the real issue with China and the WTO is China's economic growth, there is little withdrawing from the WTO would do about that. China's economy was able to grow in the 2000s because of the economic reforms it implemented to liberalize and join the WTO. Leaving the WTO would not restrict China's ability to import goods from around the world at lower prices to its benefit. As for the future of China's economy, illiberal reforms since the 2008 financial crisis have left China's economy with massive amounts of debt, greater aversion to foreign competition, and in greater need of foreign investment.

Chinese officials are hoping leaps in government-directed technology gains will help offset China's slowing economic growth. But anything that cannot go on forever will stop. And China's non-market approach to the market is one such thing.⁹

WTO Today, WTO Tomorrow

The U.S.'s growing negative sentiment towards China—given the role it has played in suppressing information about the COVID-19 virus and spreading disinformation about the virus's place of origin—is well-founded. But it should not distract from the fact that trade's popularity with Americans is likewise well-founded.

Therefore, Congress should:

- **Reject calls to withdraw from the WTO.** Previous congressional attempts to withdraw have failed. The cost to the U.S. from withdrawing and trying to negotiate all-new bilateral trade agreements far outweighs any perceived benefit withdrawal could bring.

- **Work to reform the WTO and ensure it effectively addresses the China challenge.** History shows the U.S. is very successful in winning cases at the WTO. It would be a shame to have the ability to dispute other countries' bad trade practices but not use it. Those areas where the WTO is lacking can be negotiated in reform, such as addressing China-related issues, accelerating the dispute-settlement process, and including a digital commerce agreement.
- **Take a hard look at current trade laws.** U.S. frustration with the WTO may have less to do with the institution and its members and more to do with current U.S. trade laws. Fixing America's broken trade laws, such as Section 232 of the Trade Expansion Act of 1962, would be a good start.

Conclusion

The WTO is not a perfect institution, and therefore warrants criticism and oversight. That is why the U.S. should work harder to reform the institution it helped create 25 years ago. Withdrawing from the WTO is not just the opposite direction U.S. trade policy should be heading, but would add insult to injury as the 2020 recession continues.

Riley Walters is Senior Policy Analyst and Economist in the Asian Studies Center, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation.

Endnotes

1. Lydia Saad, "Americans' Vanishing Fear of Foreign Trade," Gallup, February 26, 2020, <https://news.gallup.com/poll/286730/americans-vanishing-fear-foreign-trade.aspx> (accessed May 13, 2020).
2. Pew Research Center, "Support for Free Trade Recovers Despite Recession," April 28, 2009, <https://www.people-press.org/2009/04/28/support-for-free-trade-recovers-despite-recession/> (accessed May 13, 2020).
3. The Uruguay Round Agreements Act, Public Law 103-465.
4. Doug Palmer, "Hawley Presses for Vote to Withdraw U.S. from the WHO," *Politico*, May 7, 2020, <https://www.politico.com/news/2020/05/07/josh-hawley-us-withdraw-wto-243681> (accessed May 13, 2020).
5. World Trade Organization, "The WTO," https://www.wto.org/english/thewto_e/thewto_e.htm (accessed May 13, 2020).
6. Gabriel Felbermayr, Mario Larch, Yoto V. Yotov, and Erdal Yalcin, *The World Trade Organization at 25*, Bertelsmann Stiftung, November 2019, https://www.bertelsmann-stiftung.de/fileadmin/files/user_upload/MT_WTO_at_25_20191212.pdf (accessed May 13, 2020).
7. Mostafa Beshkar and Ahmad Lashkaripour, "The Cost of Dissolving the WTO: The Role of Global Production Networks," Indiana University, April 2020, http://pages.iu.edu/~alashkar/BL2020_Production_Networks.pdf (accessed May 13, 2020).
8. James Bacchus, Simon Lester, and Huan Zhu, "Disciplining China's Trade Practices at the WHO: How WTO Complaints Can Help Make China More Market-Oriented," *Policy Analysis* No. 856, Cato Institute, November 15, 2018, <https://www.cato.org/publications/policy-analysis/disciplining-chinas-trade-practices-wto-how-wto-complaints-can-help> (accessed May 13, 2020).
9. Riley Walters, "Understanding China's Economic Weaknesses Key to U.S. Policy Development," Heritage Foundation *Background* No. 3456, December 16, 2019, <https://www.heritage.org/asia/report/understanding-chinas-economic-weaknesses-key-us-policy-development>.