

The United States and the World Trade Organization

by Michael Curtis



Alone together, beyond the crowd, we're not too proud to cling together, we're strong as long as we're together.

The most urgent problem today is the international fight against the pandemic, Covid-19 and the search for a vaccine to overcome the deadly virus, and for funds to develop its manufacture. The issue has become controversial because of the delay by China in not informing the world of the outbreak of the virus, and the role of the World Health Organization, WHO, in helping China conceal information about the existence and threat of the pandemic.

The WHO is supposedly a non-political body whose mission is to coordinate international efforts against epidemics and provide guidance for health care. But the question has arisen of whether it has been corrupted by China's political influence. In view of this, the Trump Administration is calling for

reform, and for reduction of the U.S. funding of the organization.

A less dramatic issue, but one causing similar dissatisfaction as an international body possibly limiting U.S. sovereignty, concerns the World Trade Organization, WTO, whose mission is to coordinate efforts for managing the rules of international trade. The WTO, like the WHO, is the subject of attack by the U.S. which contents that bilateral policies are more helpful for American trade than a multilateral organization. The two organizations, the WHO and the WTO, have been acutely affected by the pandemic, which has changed political and economic trends.

Both bodies have an inherent problem, the balance between individual states, many interested in economic protectionism and national security, and a globalized world with international institutions. Inherent in this is the tension between the desirability of international governance, on the thesis that it is in the interests of all states to act collectively, and the assertion and challenge of nationalism which is increasing.

The Secretary-General of the WTO, Brazilian Roberto Azevedo, announced on May 14, 2020 that "for personal reasons" he would resign his position on August 31, 2020 after seven years in office and a year before his term runs out. The WTO, a body of 164 members responsible for overseeing the rules of international trade, has three months to choose a new chief, which is done by consensus. Of the previous six heads of WTO, three have come from Europe, and one each from Thailand, New Zealand and Brazil. Azevedo's successor will take office at a time when the WTO is struggling to reform, to be able to deal with global trade issues, and help rebuild the global economy.

At present it is not clear that the two leading powers, U.S. and China, can agree on a candidate or on the role to be played by the individual selected, at this moment when the

global economy and trade is in a low growth state, and continuing to decline. Will the new person be one eager to be a leader and command the trade agenda, or an individual willing to work in a more subordinate fashion, in accordance with policies of the more influential states? Critical though the U.S. is of the organization, it has said it will participate in the process of selecting a new director. It should do so in an attempt to influence the role of the global body, rather than withdraw, as it has the right to do every five years.

The new Secretary -General will face a host of issues; managerial problems over geographic representation, but more important ones to reconcile the increasing number of trade disputes, and above all help resolve the acrimony between the U.S. and China. His most formidable task is to formulate policies to deal with the accusations of trade abuses by China and help prevent any recreating of a cold war between the two leading countries.

The WTO, the successor to GATT, the General Agreement on Tariffs and Trade, was founded in 1994 with stated objectives: strengthen the world economy, lead to more trade, limit barriers such as quotas and subsidies, increase investment, employment, income growth, throughout the world, and to help governments resist protectionist pressures. Its decisions are reached by consensus and are binding, and are theoretically non-discriminatory.

However, WTO has not lived up to expectations. It has not been responsible for any major international accord since the trade facilitation agreement of 2013 that aimed at reducing border delays and costs, nor played any significant role in solving the trade dispute between the U.S. and China. At a time when output in the world's developed economies has sharply declined, and uncertainty about the future is delaying investment and decisions, the WTO task has now become more difficult for a number of reasons.

Of these difficulties six can be mentioned. The impact of Covid-19 has led to more than 100 trade barriers being imposed, which has resulted in international imports and exports being at the lowest level in a four years decline. Trade has deteriorated because of the imposition by many countries of export restrictions on items thought essential or desirable at the present time. The U.S. withdrew from a leadership role without China or the EU replacing it. China's increasing nationalism and authoritarianism, now shown in its bellicose attitude to Hong Kong. Populist movements with nationalist overtones appear in a number of countries including the UK with Brexit. Above all, the emphasis of the Trump Administration on bilateral, rather than multilateral, arrangements that it argues will change trade in favor of U.S. exports.

Both U.S. Democrats and Republicans are concerned with the challenge presented by China's non-market economic system. When China joined the WTO in 2001 it agreed to act to remove trade barriers , and to open markets to foreign companies and their exports. But the trade relationship with the U.S. is not fair, reciprocal, or balanced. China has not complied with WTO rules which call for market-oriented policies. A result is distortion of major sectors of the global economy including steel and aluminum, and telecommunications. China has blocked some parts of its economy, especially service sectors, from foreign competition. The Chinese government and the Communist Party and state-owned companies have subsidized domestic industries, and used low wage labor, thus making foreign competition difficult. Problems remain on issues such as intellectual property, transfers of technology, access to service markets, subsidies, and cybersecurity.

In addition, the WTO has been criticized for misusing in many ways the process, by its Appellate Body, to resolve trade disputes. Supposedly a forum for discussion and negotiation, the Body has increased its power and exceeded its authority by

issuing what amount to judicial decisions on trade disputes between members.

Politicians in the U.S. have criticized at least five other matters: the designation of China as a developing country, thus allowing it to meet different trade targets; the inaccurate reporting of the amount of state subsidies to businesses; the problem for the U.S. of the supply chains of some key U.S. industries being based in China; the fact that some of the states have environmental and labor protections, as well as restrictions on imports; other states allow unfair labor practices .

The U.S. has accused China of unfair trade policies and practices. In return, the U.S. has imposed substantial tariffs, about \$370 billion on goods from China which has agreed to increase its purchase of goods and services from the U.S. The U.S. has also entered into agreements with Mexico and Canada (USMCA), and made two separate agreements with Japan, taken action against France for its unfair digital services tax, and got the right to impose countermeasures on \$7.5 billion of goods from the EU because of the EU's subsidies to Airbus.

There are of course other trade disputes, such as those between Russia and Ukraine, and between Qatar and Bahrain, UAE, and Saudi Arabia, and the policy of Japan limiting high tech exporting to South Korea. Germany is blocking takeovers of makers of vaccines, and medicines, and on May 20, 2020 stated it had new powers to veto hostile foreign take-over bids for health companies, to ensure continuous supply of essential products during the threat of Covid-19.

Nevertheless, the central issue for the WTO is the need to recognize and overcome an unfair global system, and abuses of it by China, in order to foster an open economy, to prevent protectionist trends and avoid nontariff measures.

The latest official U.S. report states that, in spite of criticisms, the WTO still has the potential to play an instrumental role in trade relations. The U.S. therefore should stay in the organization and try to reform to it and achieve a trade balance. The Chinese Ambassador to the WTO has acknowledged that China is a major beneficiary of the multilateral trading system. The incoming Secretary-General must seek to create a balance while addressing the changes in technology and in the global trading system at a moment when the combined GDP of the members of WTO has fallen, and when there is uncertainty of how Covid-19 will change the world and trading trends. It is wise for the U.S. to remain in the organization and accept the fact that the WTO does not undermine its sovereignty.