



The Fate of the World Trade Organization in the Age of Trump

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The World Trade Organization (WTO) is teetering. The Trump Administration has attacked it repeatedly, blocked moves to restock its judicial panels, and looked skeptically on its multilateral decision-making process. For an organization that embodied the results of decades of trade liberalization and emerged triumphantly in the mid-1990s, this has been a remarkable fall from grace. In this brief, we ask why the WTO is worth saving, consider the complaints lodged against it, and suggest what would be required for a serious rescue attempt. There are several reasons to hope, but more reasons for concern.

Is the WTO Worth Saving?

This past month, an emergency gathering in Ottawa of “[like-minded](#)” countries began to explore ways in which to rescue the global trading system. It was a select gathering, though; it notably omitted the United States and China, the two largest economies in the world. While the Trump administration has treated the World Trade Organization with a combination of [neglect and outright disdain](#), much of the rest of the world is alarmed at its perilous state and thought it might be best to concoct a plan in the United States’ absence.

But why should anyone care about the WTO? Why not instead opt for the bilateral trade agreements so favored by the Trump administration?

A first reason is that multilateral liberalization, more so than regional deals, has been where large global trade changes have traditionally taken place. For example, there is a common belief that NAFTA, originally concluded in 1993, marked the moment when the United States opened its markets to Mexico. In fact, the United States had roughly [3 percent average tariffs](#) on Mexico *before* NAFTA was signed; those tariffs were locked in when Mexico joined the Global Agreement on Tariffs and Trade (GATT) in 1986, the predecessor organization of the WTO. NAFTA largely marked the moment when Mexico reciprocated.

A second reason is that the GATT and WTO have been the centerpiece of the global trading system and the source of impressive economic gains. One study suggested those gains were [over \\$18,000 per US household](#) and disproportionately benefited poorer households. This is essentially the economic efficiency argument for a rules-based global trading system: by letting countries specialize in the goods they can produce most efficiently, by allowing businesses to operate at an efficient scale, and by providing affordable goods for purchase, there are large economic benefits that accrue to all participants.

A third, related reason is that a multilateral system brings a common set of rules, which makes exporting easier for US companies, particularly smaller ones. Instead of having to figure out different rules for each market they try to enter, a single multilateral system like the WTO – which now has 164 member countries – eliminates this complication.

Yet these three arguments continue to hold little sway with the Trump administration. President Trump does not seem to put much stock in economic efficiency arguments and has an oft-expressed belief that the United States is at a disadvantage negotiating in a multilateral setting. If there is any hope of the Trump administration playing a constructive role in saving the multilateral trading system, something beyond efficiency arguments will be needed.

Here, then, is a fourth, practical reason why the WTO offers benefits that bilateral agreements cannot: It is relatively easy to remove tariffs on a bilateral basis; it is very difficult to address many important non-tariff barriers and subsidies through bilateral talks. In a recent letter to the *Wall Street Journal*, several prominent conservative voices urged the Republican President to “[pursue the endgame goal of zero tariffs.](#)” They reminded him of his aspiration to “drop all Tariffs, Barriers, and Subsidies.” The addition of “barriers and subsidies” to the mix is not a trivial one.

These non-tariff barriers can take the form of inspection regimes, regulations, or biased government-purchasing programs, as just three examples. Subsidies may be directed at all farmers of a given crop, or all producers in a given industry. In any of these cases, lowering these barriers and subsidies tends to decrease them for *all* trading partners. Thus, few countries will be willing to give them up in bilateral negotiations; there would be too many countries outside of the negotiations – from whom concessions might otherwise have been demanded – that would stand to benefit. The WTO offers a unique opportunity to address these broad-based barriers in a way in which the United States can generate maximum benefit for its concessions.

Finally, a fifth reason to care about the WTO is that the Trump administration will soon discover how difficult it is to move trade agreements through Congress. In the last dozen years, the US Congress passed the trade deal with Peru in 2007, then deals with [Colombia, Korea, and Panama](#) in 2011. The latter three deals lingered for years, stranded by political impasse. Getting trade deals through Congress is difficult, regardless of size.

Although the administration has recently disclosed [plans to strike deals](#) seriatim with the United Kingdom, the European Union, and Japan, it has yet to show it can even push the USMCA through Congress, much less this entire set. Thus, if there is a big fixed cost to get any deal through Congress, it is better to pursue a big deal – such as at the WTO – and achieve the big gains all at once.

For all these reasons, the Trump administration has every reason to join this effort to rescue the WTO. Yet, instead, it has only [focused](#) on the organization's shortcomings.

What's Gone Wrong?

The Trump administration is hardly alone in noting those shortcomings. One of the rare points of agreement in global trade policy is that the WTO is in trouble.

The discontent is striking for an institution that, a mere two decades ago, seemed to set the effectiveness standard for international bodies. When the WTO emerged from global negotiations in the mid-1990s, it seemed to offer broad coverage of trading rules, a strengthened dispute settlement mechanism, and the prospect of a forum where political disagreements over trade might regularly be hammered out. It was the last of these three that proved a critical failure.

To see why the failure of subsequent WTO negotiations has proven so important, we can look first at two key criticisms the Trump administration has recently leveled against the institution.

The first concerns the treatment of non-market economies. US Trade Representative Robert Lighthizer has argued that the [WTO is not equipped](#) to handle an economy like China and that it was a [mistake to admit China](#) to the WTO in the first place. Of course, a pressing concern for the WTO is the burgeoning trade war between the United States and China. The current stage of conflict commenced when the Trump administration decided not to await justice from the WTO but instead to impose tariffs on China for alleged intellectual property rights violations unilaterally.

While economies that feature heavy state-intervention can pose particular problems for more market-oriented economies, the real question is what best to do about it. To the extent that Ambassador Lighthizer was implying that his predecessors had naïvely considered China a market economy when admitting it to the WTO, he is mistaken. China's 2001 [protocol of accession](#) explicitly called for China to be treated as a non-market economy for 15 years. That provision effectively allowed the United States and other major economies to hit China with higher tariffs than they would have been allowed, had China been considered a market economy.

To argue that [it was a mistake](#) to let China into the WTO, one would need to be able to present a plausible alternative path that would have left the United States better off, something the Trump administration has not done. China made substantial commitments to economic reform in its accession and has largely carried them out. The real problem is that those commitments, negotiated between 1986 and 2001, were incomplete. They did not address every concern the United States and other

countries had at the time, nor do they address every issue that has emerged since, as China has continued to grow in importance as a trading nation. To address these emerging issues would require new negotiations, and those have not succeeded at providing new rules.

A second key criticism by the United States concerns the WTO approach to settling disputes between members. The Trump administration has argued that the [WTO system has overstepped](#) its bounds in its rules. With these critiques as justification, the administration has blocked critical personnel appointments to the dispute settlement system. Some of the criticisms are procedural (ignoring deadlines) while some are more substantive (expansive interpretation of country obligations).

On the substantive point, the key culprit is once again the failure to reach new agreements. In general, there is an interplay between legislative and judicial functions in governance. The legislative branch resolves political questions with new laws or rules. These laws or rules are necessarily incomplete, leaving some room for interpretation. An important role of the judicial branch is to fill in the gaps left by unclear rules.

A major problem emerges when the judicial branch – in this case the WTO dispute settlement mechanism – is left to function for decades without any new rules. Instead of filling important gaps in interpretation through new political agreements among the WTO member countries, the task is left to the dispute settlement body. It has to apply increasingly stale rules to a rapidly modernizing economy and must address disputes that are steadily more political and less legal. If the dispute settlement body demurs, then it can be argued that it fails in its task of solving trade disputes. But if it plunges into areas in which the guidance offered by a mid-1990s agreement is unclear, it can be accused of judicial activism. Again, the core problem is the lack of new negotiated agreements among members to update the rules.

There have, of course, been strenuous efforts to write new global trading rules. In 2001, the WTO membership launched the “[Doha Development Agenda](#),” a massive attempt to update trading rules. The participating countries spent years trying and failing to reach an agreement. Ultimately, the attempt largely fizzled out and resulted in a much more modest agreement on [trade facilitation](#). A central problem in negotiation was the difficulty of getting well over 150 countries to reach a consensus. In the previous negotiating round, potential hold-out countries could be threatened with exclusion from the new WTO. That trick could not be repeated once they were already in.

The failure of the WTO as a negotiating forum has limited the extent to which its rules address modern trade concerns and has put pressure on the dispute settlement system. While the precise Trump administration attacks on the WTO may be problematic, there is widespread concern about the state of the institution overall.

The Future of Multilateralism

So how can the world go about fixing this troubled but important institution? Since the Second World War, the United States has been a driving force in shaping the

global trading system. From the GATT to the creation of the WTO to the launch of the ill-fated Doha round of trade talks, the United States has nudged and cajoled the major trading nations of the world to come together and solve pressing trade issues.

Given the [strident criticism](#) of the WTO emanating from the Trump administration and its role in both [blocking](#) the functioning of the WTO and in sparking trade conflicts, other prominent countries decided it was better not to include America during the recent talks in Canada.

As sobering as it was to see the United States lose its traditional position of leadership, that issue is really just a distraction. There is nothing particularly unusual about a subset of countries trying to shape a solution before bringing it to all 164 members of the WTO. Nor was there any pretense that a WTO solution could be found that omitted the world's two largest economies. As Canada's Trade Diversification Minister [said](#): "We recognize that we are in the process of setting the table for a larger effort, broadening to all members, and that effort must include the United States and China."

For the moment, however, the key point is that a group of countries [representing roughly 40 percent](#) of world GDP saw the urgency of taking action to protect the global trading system. However, there are at least four significant problems that their effort will have to overcome if it is to succeed:

1. **The coordination problem.** No single country from the meeting in Ottawa has the economic heft of the United States. The European Union comes closest, but it has its own internal divisions on trade (the most prominent being the looming problem of Brexit, though there are other less dramatic splits). Economic heft matters because countries at the WTO can lead best by example, such as offering significant market access to others if they are willing to reciprocate. A group of countries can match or exceed the economic size of the United States, but then they must be able to coordinate among themselves. It was notable that Canada and the European Union came to the gathering with distinctly different approaches and proposals.
2. **The consensus problem.** The WTO is not an organization with majority rule; it requires consensus among its membership. During the GATT years, there was often an effort to reach such consensus among a small number of principal trading nations (e.g. the United States, Canada, Japan, and the European Union). Then others could be brought in after – or left on the sidelines. In the Uruguay Round of the 1990s, there was a push to [significantly broaden participation](#) and have all countries sign on to a "single undertaking." But how could so many countries come to agreement? Because the new WTO was being created, there was a one-time bit of leverage; any holdouts were threatened with exclusion from the new organization.
3. **The speed and scope problem.** In the wake of the Uruguay Round, there was some hope that the WTO could avoid lengthy, expansive trade rounds and instead take on issues in an almost-legislative fashion. That didn't happen. With so many participants and fears that a new trade round will not be coming

along any time soon, there are strong pressures to include the favorite issue of each country or interest group. That can make for an unwieldy agenda and drawn-out negotiations. For example, the [Doha talks launched](#) in November 2001 and were intended to conclude by January 2005, but are still not officially finished.

4. **The Trump problem.** While the United States did not need to be at the table for preliminary discussions, it does need to be involved in any ultimate resolution. Unlike China or any of the other major trading nations, President Trump has expressed distaste for the very idea of a multilateral approach. This distaste often appears to extend to the idea of any sort of global rules that could constrain US actions on trade.

Conclusion

The challenges facing the global trading system are real and urgent. If the recent preliminary discussions in Canada lead to a broader effort along the lines described above, the WTO may still have a chance. Yet crafting a solution to all these problems will be difficult to pull off. To survive, the WTO needs a relatively quick agreement involving the key global trade players: The United States, China, Japan, and the European Union, plus others who will join. If that means giving up on a single undertaking and leaving some countries on the sidelines, so be it.

The talks would need to stay focused on a minimal set of issues – just big enough to allow a mutually beneficial deal and to address the most pressing problems, including China’s subsidies and non-market economy status, the United States’ objections to the dispute settlement system, and the use of national security tariffs. Discussions would need to proceed at a pace reminiscent of the GATT’s early days – a year or two – rather than the prolonged exercises of recent vintage. And the US problem would require a Trump administration change of heart, a more activist Congress, or a new course set by the American electorate.

The effort would not be easy, but it would be worthwhile. The global rules-based trading system has been a cornerstone of post-war economic progress.

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Previous versions of this writing appeared in a three-part series featured in *Forbes*.

[“Who Cares About The World Trade Organization?,” October 29, 2018](#)

[“What’s Wrong With The World Trade Organization?,” October 30, 2018](#)

[“What’s Next For The World Trade Organization?,” October 31, 2018](#)