



24-15 Is the World Trade Organization Still Relevant?

Alan Wm. Wolff

December 2024

There has been a profound shift in American foreign economic policy that should not take place without being noted and debated. The United States has abandoned promotion of a rules-based open international trading system. It no longer supports the World Trade Organization (WTO) and the global trading system it administers.

The WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), along with the International Monetary Fund and the World Bank, are the three international institutions on which international economic relations have been based since World War II. The United States and its allies constructed the current world trading system as an essential part of the liberal world order, a series of rules-based international organizations and agreements created to help rebuild the global economy and foster peaceful cooperation after the war.

Today, at a time of rising populism, heightened geopolitical tensions, and persistent inequality, this order is being reexamined. It must be asked now whether the WTO is still relevant to the United States and other trading nations, or if that relevance has dimmed or become obscure.¹ With global economic cooperation in trade relations at a low point, the question is inescapable: Is the WTO still relevant? This Policy Brief argues that it is and that far-reaching reforms are required to the institution to make it fit for purpose if it is to survive as an effective force governing world trade.

WTO relevance should be viewed through two separate lenses.

The first is that of US foreign policy:

- What importance should American policymakers assign to the maintenance of the liberal international order it created, of which the world trading system administered by the WTO is a key component?

Alan Wm. Wolff is a senior fellow at the Peterson Institute for International Economics. Before joining the Institute in 2021, he was deputy director-general of the World Trade Organization.

¹ The questions posed in this Policy Brief were subjects for a talk that I delivered at a jointly hosted seminar by Columbia Law School and the Columbia University School of International and Public Affairs (SIPA) held in New York City on November 8, 2024.

The second is that of trade policy:

- Can the WTO be structured to be effective with respect to current and future global challenges for which trade solutions are needed?

The answer to the first question is that the WTO is still relevant to the liberal international order, and it is in the core interest of the United States and other countries to continue to support that order. The answer to the second question is that the WTO needs serious improvement. The Policy Brief concludes with needed reforms.

I. THE CONTINUED VALUE OF THE LIBERAL INTERNATIONAL ORDER AND THE WTO

The liberal international order created in the wake of World War II was a security arrangement, but it was equally an economic arrangement. The open, rules-based world trading system, the counterpart to political and military alliances, was designed to rebuild the Western democracies, counter the economic harm caused by the rise of fascism in Europe and Asia in the 1930s, and replace discriminatory trading arrangements such as the British Imperial Preference employed during the Great Depression. During the Cold War, the new trading system served to counter the state-directed economic model offered by the Soviet Union (USSR). The order contributed to several inarguable successes. In a stunning turn of events, the USSR in its entirety dissolved in 1991. The Eastern European countries that had been dominated by Russia either became members of the European Union or wished to do so. The order helped produce sustained global economic growth for nearly 80 years through to the present. WTO data paints a picture of this substantial and wholly unprecedented achievement:

- Global trade *volume* today is roughly 45 times the level recorded in the early days of the GATT (4,500 percent growth from 1950 to 2022).
- Global trade *value* today has expanded by almost 400 times from 1950 levels.
- Trade volume and value have expanded particularly steeply since the establishment of the WTO in 1995, expanding on average 4 and 6 percent annually.

Trade liberalization brought current most favored nation (MFN) applied tariffs to an average rate of 9 percent for all countries.² Among developed economies, the average tariff is far lower. The average US trade-weighted industrial tariff is **2 percent**; for the European Union, the figure is **3.8 percent**, with over 72 percent of imports entering duty-free. For China the figure is **2.2 percent**. While the world trading system was not designed to bring about the postwar economic growth of developing economies, it performed this role. Many of these economies were, during the early years of the liberal order, emerging from colonial rule. Gradually they too benefitted from the newly created world trading system, even if not directly and not proportionately. Development turned out to be a by-product of

² MFN is the normal, nondiscriminatory tariff rate applied by the United States and other WTO members.

postwar liberalization: As the developed economies strengthened, demand for developing economies' products increased.

As important as the abolition of quantitative restrictions and removal of tariffs has been, the adoption of rules governing international trade was central to the success of the trading system. Global trade today flows very largely under those rules. Product standards are to be nondiscriminatory and not applied as disguised protection. Subsidies are not absent, but they are regulated to an extent and are far less trade-distorting than would have been the case had there been no rules. It is easy to be critical of the degree to which trade deviates from the norms the WTO/GATT seeks to establish, but the world is richer for the rules that are in place and for the general habit of complying with them it has succeeded in instilling in its members.

America's post-World War II leadership has not been solely a matter of its still unequalled armed forces deployed around the world but also the result of its adherence to liberal ideals, both political and economic. The liberal international order offered its beneficiaries shared prosperity and a sense that individual effort can be rewarded by the market.

The Post-“Washington Consensus” World

The United States does not support the prior “Washington consensus” designed to maintain the liberal international order. At the same time, a “[new Washington consensus](#),” emphasizing security of supply and derisking, as advanced by the Biden administration, did not clearly gain the full support of other countries.

The change in US policy began a few years earlier. The open US trade policy lost momentum with President Barack Obama's failure to gain congressional approval of the Trans-Pacific Partnership (TPP), a proposed trade agreement between several Pacific Rim economies. US trade policy shifted officially to forego further trade liberalization during President Donald Trump's first term, with his pulling out of TPP, threatening to withdraw from the WTO, replacing the North American Free Trade Agreement (NAFTA) with the United States-Mexico-Canada Agreement (USMCA), and adopting an increasingly pro-tariff policy.

The Biden administration avoided saying much of anything positive about trade, although the WTO itself was not an explicit target of its disparaging comments. Free trade agreements were described as causing America's deindustrialization. Trade liberalization was faulted for the loss of manufacturing employment. The Biden administration left unaltered the partial dismantling of the WTO's dispute settlement system achieved by the Trump administration. It continued to block appointments to the WTO Appellate Body, which was rendered nonoperational on December 11, 2019. Through the Trump and Biden administrations, there is no record of any serious attempt made by the United States to remedy the deficiencies of the prior dispute settlement mechanism. On top of this, Biden administration trade officials allowed the expiration of “trade promotion authority,” the primary means by which the executive branch can implement new trade agreements with the approval of Congress.

By not taking or planning any major substantive trade initiatives, the Biden administration, in stasis on trade policy since Trump left office, abandoned leadership in the world trading system. It preferred to address security of supply lines with political pledges of cooperation and rhetorically opting for “friend-

shoring”, that is, purchasing from allies and preferred partners. Today, the indications from President-elect Trump’s incoming administration are that the notion of friend-shoring has no place in his “America First” approach. To the contrary, Trump’s first threats were to impose high tariffs on imports from Mexico and Canada unless they meet demands with respect to the flow across the US border of fentanyl and migrants.

During the Biden administration, US foreign policy no longer had a clear component of greater economic integration through mutual opening of markets. The exception was asking allied countries to align their trade measures with those of the United States with respect to economic sanctions and [security of supply](#). No mention was made of negotiating improved free trade agreements (except the renegotiation of the USMCA) nor any other open trade initiative. In President Joseph R. Biden’s remarks summing up of the second democracy summit that he hosted in 2023, and looking forward to a [third](#) summit, he made no mention of any need for democracies to be open in their trade with each other. This element of American strategy had disappeared. Neither Trump nor Biden has publicly cited the contribution of open trading arrangements to US and global economic growth throughout the past 75 years.

With Trump set to return to office in January 2025, the United States is to a degree effectively outside of the WTO, the formal global trading system. Whether his new administration officially withdraws the United States from the WTO or not, the imposition of tariffs, whether a flat percentage, or chaotically based on mirroring foreign tariffs on an item-by-item basis, or choosing targets of opportunity at will, these steps would effectively be the same as withdrawal from the WTO in most respects. The tariff and MFN (nondiscrimination) commitments would have lost their meaning. There is more to the WTO, however, and the United States violating the tariff commitments would not necessarily mean it would choose not to adhere to other WTO commitments, such as those with respect to product standards. While breaching the tariff commitments would raise questions about the reliability of America’s trade commitments, there is no provision by which the United States could be expelled from the WTO, and that outcome may not be desired by the United States or its trading partners.

Under both the Trump and Biden administrations, the United States abandoned fostering the liberal international order. Trump in his second term should not be expected to change his view of trade relations with other countries. There is a possibility, however, that a future administration would eventually find its footing in resuming a leadership position in a relatively open, rules-based trading system.

It is a valid question to consider how durable a military and political values-based alliance can be that does not celebrate trade among allies and depends solely on defense arrangements while the country’s declared adversary (strategic competitor) continues to build trading relationships with America’s allies and many others? The United States fails to understand and pursue its national interest through the world trading system it created and maintained for three generations. If President Trump applies tariffs to most or all imports, it would effectively end US participation in the liberal international order it created as a bulwark against threats from authoritarian rivals and strain political and defense arrangements among allies, if not scuttle them. Selective actions against allies and others may have the same damaging effect.

In sum, US national security policy must, of necessity, be aligned with three conclusions about where America's international economic interests stand:

- Given that the closest US allies are open/mid-sized economies that are highly dependent on international trade, by disengaging from the WTO or, even worse, acting disruptively, the United States is weakening core alliances by undermining the economic security of allies.
- The new cold war will largely be a battle for the hearts and minds of the Global South. US passive or disruptive behavior is allowing China, its declared rival, to continuously score goals in the WTO and through its trade and investment arrangements.
- The United States also has an interest (which may go unrecognized) in establishing guardrails around its China trade and investment restrictions that allow cooperation on global trade challenges and prevent self-harm through escalation of these measures.

Should the liberal international economic order be allowed to simply fade away? Should it be judged to have served its purpose with the end of the Cold War, and no longer be relevant to the world, however fraught and chaotic, we inhabit today?

While the WTO has serious flaws, it has major strengths. To be sure, it must evolve, and is to an extent evolving, to meet current challenges—climate change, food insecurity, pandemic preparedness, stewardship of the environment (fisheries subsidies, plastics pollution), gender inequality, and income inequality. However, these are not clearly objectives of the incoming Trump administration. Whether WTO members who actively support the WTO-administered world trading system can succeed in preserving the system absent the United States or with damaging behavior from the United States is a question that will be posed. (The relevance of the current set of trading rules to current needs of world trade is evaluated separately in section II of this Policy Brief.)

The position expressed here is that it is in America's national security interest to have a world in which trade is growing and economies are largely open within a global trading order. Solutions to future challenges will be more readily attainable if the liberal international order is maintained and strengthened. Not every cooperative undertaking needs to be multilateral, but that option should be available, and agreements with narrow participation should be able to expand over time.

The Contest for the Hearts, Minds, and Economic Interests of Others

In the geostrategic divide, what was on offer from the United States? It offered a model of individual achievement, attainable through individual freedom and free market forces (albeit moderated by the government). China, now the world's largest trading country, offers economic advancement without criticism of its trading partners' illiberal policy choices. It invests heavily in other countries' infrastructure through its Belt and Road Initiative, especially to serve its trade interests and increase its influence. According to recent news story, China is building a rail connection between Kashgar and Samarkand to [cement its role](#) in regional trade. It has begun to offer market access beyond what is available

on an MFN basis by eliminating tariffs on regional trade through a regional free trade agreement, the Regional Comprehensive Economic Partnership (RCEP). It has also applied formally to join CPTPP.³ However, it has not yet taken a central role in the WTO vacated by the United States.

A dangerous fault line between the two great powers stems from Russia's invasion of Ukraine. China supports Russia rhetorically and through economic means. The United States and its allies have applied economic sanctions to Russian interests including its trade, which at some point might increasingly affect Chinese enterprises. In the name of derisking, the United States applies higher, discriminatory tariffs to many of its imports from China (at an average over 19 percent versus the rate on all other trade that is below 3 percent) and national security-based export controls. America's allies, all of whom wish to retain good trade relations with China, do not generally apply discriminatory tariffs against China, although they apply selective export controls. In addition, China is a major target of all countries' trade remedy actions that are notified to the WTO and often result in higher tariffs on Chinese goods, selectively. For its part, China seeks to reduce its dependence on trade with America. Each side's derisking does not yet extend to decoupling of the two primary antagonists' economies. The future of the bilateral relationship is currently less predictable as the Trump administration comes into office. It is unknown how the Russia-Ukraine war will affect international trade relations, nor what the US attitude toward China will be (possibly more hard line, but that is not yet clear). The pressures from the rerouting of trade away from US-China exchanges will also affect third countries, especially the European Union.

US policy toward the rest of the world is colored by its contest with China. Under the Biden administration, this included seeking foreign coordination on supply assurance and on the application of sanctions related to China's support of Russia in the latter's Ukraine invasion. China, with a less transparent array of measures that affect its trade, uses WTO rules to attack the West's trade restrictions.

In the US view, regardless of the administration in office, WTO rules are not an effective means to rein in the Chinese state's trade and investment-distorting intervention in its economy, including widespread subsidization. WTO rules have not proved successful in preventing China from using trade measures for economic coercion or resorting to trade retaliation. However, China presents itself as complying with the WTO's rules when they are clear and unambiguous.

The WTO has not yet come to grips with the major challenge of incorporating within its membership the world's two strategic competitors and potential adversaries. The United States appears to have zero trust in China on trade matters, and that mistrust may well be fully reciprocated by China.

It does not appear to be clear to any WTO member that the WTO is relevant to the geopolitical divide. The European Union, Canada, Australia, New Zealand, Switzerland, Norway, Costa Rica, and a substantial number of identifiable others that are working to preserve and improve the system do not see the WTO's purpose as political. These countries are concerned with the US policies as well

3 The Comprehensive and Progressive Trans-Pacific Partnership Agreement, the successor to the TPP without US participation.

as those with China, with America's recent industrial policy measures granting large subsidies to foster domestic industries and local content requirements. There is not a fully open debate at the WTO comparing government intervention in each of the two economies. There is therefore the potential for a false equivalency to be drawn.

The clear-cut Western alliance in pursuit of the liberal international order during the Cold War is no longer invoked. The foreign policy divide that academics draw between authoritarian regimes and those that are democratic-capitalist is not present in discussions about the future of the WTO.

The WTO rules have also proved unequal to the task of discerning valid national security actions—for example, with respect to US export controls on semiconductors or imports of telecommunications equipment—from abuses of this WTO/GATT exception, ranging from US tariffs on its ally Canada's aluminum to Russian trade measures against the trade of Ukraine, a country it invaded. If these questions are not addressed, the WTO is likely to appear increasingly irrelevant to safeguarding and promoting US national security interests.

The WTO and the US-China Relationship

What part, if any, can the WTO play in the strategic competition between the United States and China? Are rivals better off with WTO-provided rules of engagement over trade? This must be answered in the affirmative. The alternative is to have no understanding of what conduct is considered normal and acceptable. Examples of the utility of having rules are plentiful. Wherever motor vehicles are driven, there are rules of the road. The same is true for shipping, although there may be few marked lanes in the open ocean. Whether on land, sea, or in space, collisions are to be avoided.

Neither the United States nor China appear to be seeking a direct military confrontation. To avoid an accident and serious misunderstandings, the militaries of rival powers develop channels of communication. An explicit *modus vivendi* may be needed to prevent adventurism or an error at the operational level ending in an irretrievable escalation. As there are some rough rules to prevent military forces from inadvertent run-ins, trade relations between adversaries may be able to benefit in similar fashion.

Litigation between the two great powers, including eleven cases since 2017, has not clearly moderated the bilateral competition. The Chinese have a deep bench consisting of good students of the GATT and WTO rules. China uses WTO dispute settlement at the panel level to highlight US violations of the rules, as does the United States with respect to China, although the outcomes have no direct effect, with no Appellate Body in existence, and since the two countries have no applicable alternative dispute settlement arrangement between them.

As the two largest trading countries, there is a degree of mutual dependency that is unavoidable. Complete decoupling is not currently feasible. Moreover, there are possible areas of shared interest—dealing with climate change, natural disasters, future pandemics, and food insecurity, for example. Neither Washington nor Beijing appears to have invested in creating a grand Venn diagram to summarize their overlapping interests, nor even narrower, subject-specific Venn diagrams.

How to begin? An [approach](#) the WTO members have employed of late to respond to climate change is to find common ground not by stating negotiating positions but by identifying and listing trade measures they are employing to achieving a stated objective. The WTO members who are participating in a structured dialogue on sustainability [list](#) products and services relevant to dealing with climate change. The starting point is what the good or service does to meet a common goal, not whether there is reciprocity or whether the provision of the good or service by one or the other confers a competitive advantage to the supplying country. One assumes that solar panels would be on any list, not initially whether they are fairly traded or encumbered with trade restrictions or trade-distorting support.

In the context of the WTO's current agenda, there are other examples of potentially shared interests. In the Director-General's Consultative Framework Mechanism on Cotton Development Assistance, the United States, China, India, and other cotton-producing nations seek to help very poor countries generate better yields, cotton by-products, and therefore more revenue from producing cotton without looking for reciprocity. The interests of donors appear to be congruent and wholly altruistic. A similar complete overlap may exist in other areas, such as contributing to the Standards and Trade Development Facility, which funds developing economies' proposals to help poor countries deal with product standards for agriculture, a critical issue for their export trade.

Moving closer to their core commercial interests, the two competitors share an interest in vetting their own product standards in draft for comment by other members, as well as having the ability to comment on others' proposed standards. This can be a vital interest when it comes to the new challenges of AI products. It cannot be assumed that the two rivals have no shared interests that can be fostered at the WTO.

A next step in the detoxification of US-China trade, to the extent feasible or desirable, would be to begin the process of finding common interests. Ultimately this could extend to considering with other members some best practices and disciplines on subsidies and the adoption of some guardrails on the use of national or essential security as a reason for interfering with trade flows. It will not be easy but should not be ruled out. The goal should be the adoption of multilateral rules, although the path to getting to that result may be bilateral or plurilateral.

A full review of the place of multilateralism and the liberal international order in US foreign policy should be a priority for future US administrations, although that may be unlikely under Trump. The hard-won global trading system should not be abandoned unconsciously, with no serious examination or deliberation.

II. IS THE WTO STILL RELEVANT TO THE REGULATION OF WORLD TRADE?

Books and articles have been written on the strengths and weaknesses of the WTO, with the emphasis on its failings. In my book, *Revitalizing the World Trading System* (Cambridge University Press, 2023), I have a chapter on the values that the WTO represents and fosters, some 20 of them. It is worth stepping back from the WTO agreements' provisions and their operation to see what the WTO's members have sought to achieve in the many agreements and extensive array of committee and Secretariat activities of the WTO.

Here, a different metric is presented, which highlights what the WTO's members get right and how needed services are performed for the world economy and international relations, and where they fall short. Some major positives and negatives that come to mind are listed below.

Positives: Facts Indicating that the WTO Continues to Be Relevant in Regulating Trade

The WTO provides great value to the global economy as more than 75 percent of world trade flows in accordance with its rules. All preferential trade arrangements, including regional agreements and bilateral free trade agreements, are based on the WTO's rules.

The default treatment in world trade is nondiscrimination, absent a preferential trade arrangement. Even where there are preferential trade arrangements, it is often not worth the red tape of qualifying for preferential treatment, primarily to meet rules of origin requirements, if the MFN rate is already low. The importance of MFN treatment is seen in the placement of the MFN requirement in the first article of the GATT.

The WTO rulebook in general supplies a high degree of certainty for those engaged in trade, which is essential if goods and services are to move relatively smoothly in international exchange. It is primarily WTO's certainty of access rather than a low tariff rate that determines whether investing to serve a foreign market makes economic sense. This does not mean that trade across borders is frictionless, and the effort to smooth its path continues. It is estimated that crossing a border can add 24 percent to the cost of a good, which is the reason that the WTO's Trade Facilitation Agreement was negotiated.

The Dispute Settlement Understanding has moved world trade away from a power-based system. Dispute settlement seeks to provide enforceable rights to all 166 WTO members equally and is still utilized by them. Although for many countries there has been no binding WTO dispute settlement after the United States blocked Appellate Body appointments, panels still meet, and WTO members still work out their differences under the WTO's rules. Parties often use informal means to settle disputes, perhaps to a greater extent than when the Appellate Body existed.

The WTO provides a substantial degree of transparency with respect to trade measures. Trade would suffer dramatically without at least this degree of reporting. While much of the transparency is derived from reporting requirements, the peer review of member trade policies provided by the Trade Policy Review Mechanism (TPRM) is widely seen as highly valuable. TPRMs are based not only on the information that the members have provided independently but also on a report by the Secretariat that is provided to all members for each review.

Product standards, which can cut off trade altogether (as opposed to tariffs, which in general slow trade rather than prevent it), are subject to review and comment by all interested parties in draft, before they become final. This is widely seen as a major benefit of the WTO by governments and those who trade.

The WTO has evolved with the times to recognize that its members are stewards of the resources of the planet. A fresh focus of the WTO is on advancing sustainability and environmentally sound trade. These efforts can be seen as

making the WTO of increasing rather than diminishing relevance. The first substantial contribution to the global environment is the partially completed Agreement on Fisheries Subsidies. Collaborative work is also underway on the circular economy, plastics pollution, and reduction of trade restrictions and tariffs on goods that would address climate change. The Trade and Environment Sustainability Structural Dialogue (TESSD) has provided members with a list of goods and services that members generally see as contributing to the global environment.

Accessions: WTO membership continues to be a beacon of hope for fragile and conflict-affected countries, as well as others. Integration into the world economy is seen as a primary route to escaping a cycle of poverty and gaining a degree of stability that will enable peace to be achieved and maintained. The presence of 22 countries in the accession queue is testimony to the value of the organization. The list includes fragile and conflict-affected countries, such as Somalia, Sudan, South Sudan, Ethiopia, Iraq, and although less active at present for obvious reasons, Syria. Lebanon is another applicant in the Middle East. Others on the list of those who seek entry to the WTO include Uzbekistan, Turkmenistan, Bhutan, Belarus, and Serbia.

Development remains a central goal of the WTO's activities, with a number of successful programs under this heading. The Consultative Framework on Cotton Development Assistance has proved beneficial in marshalling aid in particular to Benin, Burkina Faso, Chad, and Mali. The Standards and Trade Development Facility focuses on identifying ways to assist developing economies to meet agricultural standards and benefit from trade.

Negatives: Factors Indicating that the WTO Risks Irrelevancy

The WTO's members have not concluded multilateral agreements except in very limited instances during the last nearly 30 years since the institution was founded. The most recent effort, the Agreement on Fisheries Subsidies concluded in the Twelfth Ministerial Conference (MC12) two years ago, is still not in force. Moreover, it is an incomplete agreement that self-destructs by its terms if a second fisheries agreement (Fisheries II) is not concluded. The Trade Facilitation Agreement is part of the new era of how to improve the conditions of trade but has few binding commitments. Apart from the ban on agricultural export subsidies agreed to in Nairobi in 2015, and the incomplete Agreement on Fisheries Subsidies (in prospect, as it is not yet ratified), there has been no addition to the WTO rulebook in terms of disciplines on subsidies since the Agreement on Agriculture and the Agreement on Subsidies and Countervailing Measures were concluded 30 years ago. The Information Technology Agreement (ITA), while a substantial positive, is multilateral only in the sense that it covers 90 percent of world trade and its benefits are global, but not in the sense that all WTO members are covered by its obligations—they are not (for example, India has opted to refrain from joining the update in product coverage contained in ITA II).

The WTO members have not found a way to recognize the validity of additional open plurilateral agreements and to incorporate them into the WTO rulebook. The WTO members willing to undertake new commitments subordinate themselves to obstruction by a willful minority, through a rule of consensus that has been interpreted to require unanimity.

The WTO members have failed to maintain a dispute settlement system to which all members subscribe.

The rulebook of the WTO, through an exception to its requirement of nondiscriminatory treatment, has permitted a massive use of preferential bilateral agreements, particularly by the European Union, mocking the rules that require nondiscrimination (MFN and national treatment). Countries accounting for a quarter of global GDP have joined the EU-Mercosur Free Trade Agreement. Nonsignatories are discriminated against in the hope, one assumes, that ultimately the agreement will be more trade creating than diverting, and thus not a clear net negative for nonparticipants.

WTO dispute settlement has failed to deal with the scope of the exception to the rules for essential (to date, national) security.

The WTO stands out for its lack of institutional means to organize its work, compared with other international economic institutions.

The WTO seeks to make progress as a committee of the whole, which is ineffective without having a board as its sister institutions, the International Monetary Fund, the World Bank, and the Organization for Economic Cooperation and Development.

The WTO does not have a functioning executive under the leadership of the WTO director-general supported by the WTO Secretariat. Again this diverges from its sister institutions.

The WTO is not expected to, and has not attempted to, set the rules for US-China competition, a contest that threatens to render the WTO ineffective in regulating world trade. A myriad of harms can be caused by unregulated use of restrictive trade measures between the two great trading powers. The United States will continue to seek coordinated action from its allies to deny trade that is of benefit to China carried out by third countries including through Chinese investment and will seek to employ restrictive rules of origin to stultify Chinese participation in aid of this purpose. Third countries will fear and likely act against “rerouting” of China trade that formerly would have been absorbed by the US market.

CONCLUSION

It is surprising and sobering that the liberal international order that shaped global economic affairs for over three-quarters of a century after World War II was in fact so insubstantial, however vitally important it has been. It existed as a norm. It was to be found in a spirit of openness and international economic cooperation. Somewhat like the British Constitution, it was not captured in a single legal document. It may turn out to have been something of a phantom that slipped away and was gone, departing as nations began to abandon their high ideals. Russia’s invasion of Ukraine destroyed the illusion that governments had progressed to the point of not using force against each other. But to date, those who provided the basis for the liberal international order have rallied to push the aggressor back. Perhaps the supporters of that experiment in international economic cooperation will rally sufficiently to support its retention.

President Franklin D. Roosevelt and UK Prime Minister Winston Churchill had a lofty vision for their shared war aims that they encapsulated in what was at the time of publication just a press release. It was quickly recognized to be

of such special significance that it was given a name, the Atlantic Charter. It is as important to the postwar world economy as the US Constitution was to the development of democracy (although that too may be under threat today). The two Western leaders in 1941 envisioned a future that would lead to a new era in international relations that included trading on equal terms. It is worth considering the alternative world as it once was and which it could once again be. Taking the 1,400 kilometer multi-river cruise from Amsterdam on the coast of the Atlantic Ocean across the backbone of Europe to Budapest far inland is instructive. Centuries ago in medieval Europe, every city, principality, and feudal lord along the river could exact tolls for passage and many did, each placing an additional burden on trade. Where Adam Smith saw bordering on water, whether a river or the ocean, as a great advantage for the local economy, giving access to foreign markets, petty rulers saw the opportunity to gain revenue by levying tolls on river traffic, often tied to the value of the cargo being transported.

The tariff is in vogue again as a primary tool of national policy. Any [chart](#) of world economic growth from the year 1 AD to the present shows a largely flat line until the year 1800 approaches and then explosive growth in per capita GDP. The line is shaped like a hockey stick for a number of reasons, including revolutions in energy and technology. It also reflects the lifting of the dead weight of tariffs.

The word “freedom,” the hallmark of the liberal international order, still resonates. Individual freedom can be suppressed in a variety of ways by the state’s power to constrain individual behavior and choice. In a world in which tariffs are once again made a primary source of revenue, and trade is restricted, a producer’s ability to sell abroad and reap the benefits of its lower costs and greater innovation will be constrained, as will a consumer’s choice.

Freedom is indivisible. Political freedom without economic freedom is not possible, and the reverse is true as well. The world economy is a laboratory in which the validity of these theorems is tested by proofs in the real world.

On the broad question of whether the WTO is relevant to the liberal international order, the answer posited in this Policy Brief is that it is, and that it is in the core interest of the United States and other countries to support the institution. On the narrower question of whether the WTO is operationally fully fit to regulate world trade, the answer is that the institution needs serious improvement. The WTO members must find a way to engage in serious deliberation to find broadly acceptable solutions to shared problems. The resulting agreements can take the form of solemn political commitments or adoption of binding rules. Both approaches are needed. Regression to a lack of accountability for one’s trade policy measures would be unacceptably damaging. Negotiations leading to new rules are needed to avoid chaos.

The first Trump and then the Biden administrations made a major error in turning their backs on international engagement through negotiation. Biden compounded this mistake by abandoning the domestic constitutional arrangement between the executive and legislative branches: “trade promotion authority” (also known as “fast track”), which provided a means for the two branches to work effectively with each other. Instead, the executive branch pretends that existing delegated authorities are sufficient and Congress is not needed as a partner in setting trade policy despite its formidable constitutional powers, which are nondelegable. The second Trump administration should avoid making the same mistake. The domestic constitutional balance needs to be found

again. Working with Congress will be frustrating, but it is necessary. The singular achievement in trade policy in the first Trump administration was developing a consensus within the two branches of government, the executive and the legislative, that permitted the negotiation, approval, and implementation of the USMCA. That lesson should not be discarded.

This will be a time of severe testing for the WTO. The world risks losing political and economic freedom in the manner Ernest Hemingway described a character in *The Sun Also Rises* going bankrupt: “Two ways. Gradually, then suddenly.” The liberal international order and one of its principal tools, the WTO, need to be preserved and improved. If this tool is diminished by its continuing inadequacies and the regular failures of its members to abide by agreed rules, it faces the risk of worse harm to the global economy occurring suddenly.

The United States was instrumental in the creation of the world trading system and then it abandoned its role, quietly, without fanfare. The system has still not recovered. The United States may change for the better at some point or may be more disruptive. If the latter, much will depend on the ability of the European Union and other WTO members that now limit their support for the system with pronouncement to invest in making the trading system better and in the interim to avoid any backsliding.

A *Wall Street Journal* reporter asked me whether the WTO would collapse and disappear if the United States left it (or adopted a trade policy completely at odds with its basic tenets). The answer is that the WTO will carry on without the United States, whether it formally withdraws from the organization or not. The WTO will do so because rules are needed, because freedom to trade, hard-won, and even if not consistently supported by the world’s economies, in the end makes good economic sense. As with physical laws of gravity, sound economic principles will continually prove themselves, even if the lessons must be relearned from time to time. The WTO members should take their lead from Roosevelt and Churchill and adopt for themselves the prescription the two leaders put forward almost a century ago: The economies of the world, members of the WTO, will endeavor “to further the enjoyment by all states, great or small,...of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity.”

© 2024 Peterson Institute for International Economics. All rights reserved.

This publication has been subjected to a prepublication peer review intended to ensure analytical quality. The views expressed are those of the author. This publication is part of the overall program of the Peterson Institute for International Economics, as endorsed by its Board of Directors, but it does not necessarily reflect the views of individual members of the Board or of the Institute's staff or management.

The Peterson Institute for International Economics is a private nonpartisan, nonprofit institution for rigorous, intellectually open, and in-depth study and discussion of international economic policy. Its purpose is to identify and analyze important issues to make globalization beneficial and sustainable for the people of the United States and the world, and then to develop and communicate practical new approaches for dealing with them. Its work is funded by a highly diverse group of philanthropic foundations, private corporations, and interested individuals, as well as income on its capital fund. About 12 percent of the Institute's resources in 2023 were provided by contributors from outside the United States.

A list of all financial supporters is posted at
<https://piie.com/sites/default/files/supporters.pdf>.