

# The Development and Current Problems of WTO and Relating Influence on Chinese Enterprises

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## ABSTRACT

As great changes have occurred in international relations and global market, the problems of the WTO and the shortcomings of its operation mechanism have been constantly appearing in its negotiation process. The WTO's ineffectiveness became particularly apparent after the breakout of COVID-19. Therefore, the WTO is supposed to adapt itself to the changing situation, or its future will be at stake. Chinese enterprises should take advantage of the opportunity brought by the dynamic circumstances. This review explains the prosperity and the decline of the WTO through two history events - Uruguay Round and Doha Round - and analyzes the mutual influences on trading between WTO and China after China's accession into the WTO. Furthermore, the review focuses on the interpretation of WTO's problems concerning the ineffectiveness of the Trade Policy Review Mechanism, the impacts caused by COVID-19 pandemic, and the emergence of multilateral trading system and de-globalization. There is also an analysis of relating effects on Chinese enterprises that stemmed from WTO's problems. In the end, this review provides practical suggestions for both the WTO and China.

**Keywords:** *WTO, Chinese Enterprises, Multilateral Economy*

## 1. INTRODUCTION

The world is greatly changing and both competition and cooperation on trade between various countries are increasingly intense. The World Trade Organization (WTO) carries significant function and meaning within global trade issues as one of the most important economic organizations. However, as the WTO begins its third decade, when China has risen, the world's economic and political system tends to be extremely unstable, and the COVID-19 has erupted, its mismatch with current situation and problems are constantly exposed. The initial expectation that the WTO would be the fulcrum for future international trade agreements has not been met. [1]

This paper aims to show how WTO reached its prosperity in the last century by explaining the process of Uruguay Round and how it gradually declined through review of the Doha Round to further explain its crucial problems on Trade Policy Review Mechanism. This review also analyzes the mutual influences on trading between WTO and China after China's accession into WTO. Besides, analysis will pay attention to the huge

influence of WTO caused by the pandemic COVID-19. Moreover, it talks about the relevance of emergence of multilateral system and de-globalization to WTO. In the end, the review is concluded with feasible suggestions for both China and WTO.

## 2. BRIEF INTRODUCTION OF WTO

Headquartered in Geneva, the World Trade Organization (WTO) is a permanent international organization independent of the United Nations. Originally traced back to the General Agreement on Tariffs and Trade (GATT) signed on October 30, 1947, the World Trade Organization officially came into operation on January 1, 1995. One year later, the WTO formally replaced GATT interim body. Until May 2020, it has 164 members and 24 observers.

The main function of the organization is to mediate trade disputes. It serves as a legal organization for the trading system, as well as the administrator of numerous trade agreements, the supervisor of its members' trade legislation, and the venue for the settlement of disputes and negotiations on global trade.[2] According to UN

Comtrade, the import and export volume between its members accounts for more than 98% of the world. Consequentially, the WTO is one of the most vital international economic organizations in modern society, also called the “Economic Union”.

The target of the WTO is to establish a more dynamic and permanent multilateral trading system. Compared with GATT, WTO has complemented intellectual property rights, investment measures and services that weren't included in its former agreement.[3] Moreover, WTO entertains the status of a legal person, which enables it act more effective in mediating disputes among its members.

### **3.SIGNIFICANT EVENTS FOR WTO AND THE IMPACT OF CHINA ENTERING WTO**

To precisely explain current problems of WTO and understand the relationships and mutual influences between the WTO and China, we need to draw attention to two significant events; one led prosperity to WTO while the other made it gradually declined.

#### ***3.1.Uruguay Round and Its Results***

The Uruguay Round was held in Punta del Este of Uruguay in September 1986 and ended in April 1994. Issues of this talk includes traditional focuses on tariffs, agricultural products, safeguards cause; also, the talks were going to extent the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles [4]. This undoubtedly indicates the pursuit for a more multilateral and dynamic market. At that point of time, trade protectionism was on the rise; countries were worrying about an outbreak of a full-scale war again. Thus, given the alignment of goals in WTO members, the outcome of Uruguay Round was very positive. The multilateral system has been strengthened, bringing agricultural products and textiles into the track of liberalization. Besides, the average tariff rate of developed and developing countries has been reduced approximately by one third according to reports on tariffs from the WTO. [5] More importantly, the consensus and expectations of building a multilateral system coming from Uruguay Round triggered the establishment of WTO.

The WTO was akin to the convergence of the positive outcomes of the Uruguay Round. It effectively created a friendly trading environment with fair tariff and stable market relation at that time.

#### ***3.2.Doha Round and Its Extended Meaning***

While Uruguay Round was quite successful in promoting multilateral system and reaching trade agreements, the Doha Round held in November 2001 was

not so satisfying for both developed and developing country members. The Doha Round focused on breaking down trade barriers and agricultural products entering the international trade market. Meanwhile, it was an official opportunity to discuss the new problems arising in the implementation of agreements that established in Uruguay Round. During this talk, conflicts, and disagreements between developed and developing country members were intensified. Both sides bargained for their own interests, and no one was willing to make a profitable concession. Thus, the talk came to a standstill and was officially suspended in 2006.

Unlike Uruguay Round that happened in a relatively amicable environment with members having common goals and expectations for a new organization or system that can lead their way. The Doha Round, as the first multilateral trade negotiation since the WTO was officially founded in 1995, attracted much attention and anticipation. [6] In the meantime, with the conclusion of the Uruguay Round and the implementation of relevant agreements, there was a general feeling among developing country members that they had committed themselves to heavy obligations on relevant new agreements but had not received the benefits they had expected from the Uruguay Round agreements. [7] In terms of the developed countries in WTO, they incessantly pursued their own interests and were unwilling to make concessions either. Therefore, the Doha Round ended in failure.

The failure of Doha Round brought much disappointment to WTO's members and lessened people's trust towards the WTO. Moreover, it revealed some shortcomings in the WTO system. First, after the establishment of WTO, as the outcome of the Uruguay Round, it began to apply a negotiating model which ensured that nothing would be agreed upon until everything was agreed – the ‘single undertaking’. [8] To some degree, such a rule indeed enhanced WTO's binding force, yet it brought tremendous resistance and complexity to the decision-making process as it is extremely difficult to reach agreements under the circumstance where all the member countries negotiate for their own benefits. Secondly, its system was in lack of the force of law, all the negotiations and consensus were mostly based on members' subjective commitments, which means, when their interest conflict reaches an irreconcilable degree of tension, member countries can decide to pull out, leaving an unsolvable and intractable situation. In addition, the failure of Doha Round potentially cast doubts on multilateral system, ideas of bipolar cooperation gradually sprouted, causing contradictions to numerous strategies about building and developing a multilateral system. This certainly increased difficulty in creating systematic global political relations and is not conducive to stable market.

### ***3.3. China's Accession into WTO and Their Mutual Impacts***

Beyond all these, in Doha Round period, new power entered the WTO. On November 11, 2001, in Doha, China signed the Protocol on its Accession to the World Trade Organization. [9] China's accession to WTO presented opportunities to both itself and WTO and carried global implications. For China, joining WTO undeniably means accessing a broader platform to carry out international trade. This opening market enabled mass circulation in goods and technology, bringing wealth and development to China. Moreover, China was ushered in a new level of awareness in intellectual property rights and trade dispute settlement strategies. To be more specific, before joining the WTO, trade disputes between China and other countries can only be resolved by unilateral trade retaliation measures and diplomatic negotiations, and once Chinese companies are forced to fight a lawsuit, they are very likely to lose it. But after joining WTO, like other members, Chinese enterprises can also resort to the trade dispute settlement mechanism to defend its own interests. [10] We can see that joining WTO provides China with more means to cope with international trading affairs. Furthermore, from the perspective of being practical, standards regarding environment protection for materials and requirements concerning food safety contributed to the improving quality of domestic products. For WTO, China's entry largely expands its market and trade volume, injecting vitality and strong purchasing power into trade process among member countries, meanwhile, making it a more comprehensive and influential organization.

While the benefit of joining the WTO is undeniable, the ultimate result appears paradoxical for China. Since 2002, China's iron and steel, automobile windshields, lighters, mechanical and electrical products, textiles, and some agricultural products have encountered challenges of numerous anti-dumping. [11] Moreover, since The Protocol on China's Accession to the WTO allows members to take "special safeguards measures" for China's export products, WTO members have strengthened the legislation of transitional safeguards mechanism for China's products, which was unfavorable for the internationalization of Chinese products. [12] To briefly sum up, although joining WTO accounts for broader trade platform and more opportunities for China, with the increasing market competition, the probability of trade frictions and disputes between China and other nations has greatly increased. At the same time, with the recession of world economy, anti-dumping and other actions also represent the operation of trade protection measures taken by various countries.

At this point of time, the relations between member countries became less reciprocal with more aggressive policies and fights against one another. China's status in international market has risen. The changing trading

environment put much pressure to dominating developed countries like the USA. In the meantime, under the intense and dynamic international relations and the breakout of COVID-19, the problems of WTO keep coming up. At the same time, an increasing number of people started to question the responsibility and function of WTO and cast doubts on its future.

## **4. THE PROBLEMS OF WTO AND RELATING INFLUENCE ON CHINESE ENTERPRISES**

### ***4.1. The Ineffectiveness of Trade Policy Review Mechanism***

In WTO, the Trade Policy Review mechanism (TPRM) plays the role of "soft constraint", which constitutes the supplement of "hard constraint" of the dispute settlement mechanism. [13] In practice, however, the performance of this "soft constraint" is not ideal. While the WTO faces a crisis and the dispute settlement mechanism doesn't play a role temporarily, this kind of "soft constraint" can hardly make up. Taking the development of TPRM's review of Section 301 of the United States as an example, the main implication of Section 301 is to protect the rights of the United States in international trade and retaliate against other countries whose trade practices are deemed unreasonable and unfair. [14] TPRM's persistent questioning and criticism cannot form effective review pressure and cannot prevent the revival of Section 301, which demonstrates the limitation of review effectiveness and legal discipline. TPRM can be attributed to a supervision mechanism in monitoring and executive function.

Since the TPRM has no position to ensure the logicity of trade policies, developed countries take advantage of this feature to fight against potential rivals. For instance, the US were going on a trade war imposing tariffs on manufactures against China. Based on the analysis of the costs of tariff policy changes by Archana Vani, a partial equilibrium model approach based on highly disaggregated data shows that when China and the US are moving rapidly towards tariff imposition, it is largely deleterious from both the economy's perspective in terms of trade and welfare. [15] Trade frictions lead to exchange rate fluctuations between China and the US and then affect the import cost of manufacturing enterprises. Opposingly, the increase of tariffs adds the export cost of manufacturing industries and weakens the price advantage, which greatly increases the pressure on manufacturing industries that rely on the US market. [16]

The WTO's trade policy review mechanism is less binding on powerful countries which damages development of the manufacture industry of the developing countries. Those developed nations utilize the weakness of mechanism to attack economic rivals, which

is contrary to the purpose of free trade. Chinese enterprises were subjected to non-mandatory countermeasures by developed countries. What's more, none of both sides benefits from conflict and the world economic order has been negatively impacted. Under such a circumstance, the trade policies taken by the developing countries which damage Chinese enterprises' interests cannot be prohibited and adjusted through this mechanism. Based on the reason of national security and anti-dumping, related Chinese companies are in face of losses resulted from export blocking. Therefore, the WTO should actively reform the trade policy review mechanism. As an important WTO member, China is supposed to promote the process of institutional reform.

#### ***4.2. The Impact of COVID-19 to WTO Constitution***

The whole global economy and trade shrank sharply as a direct result of the Covid-19 pandemic. [17] Meanwhile, trade restriction measures adopted by various countries had lasting negative impacts, especially on the trade of transportation, medical supplies, and tourism. [18] The provisions of trade measures related to global epidemic prevention and control are scattered in various WTO agreements and lack systematic and effective application standards. This also highlights the limitations of WTO rules and the looseness among WTO members. According to the WTO's report on Export Bans and Restrictions, 80 countries and separate customs territories have imposed export bans or restrictions as a due to the COVID-19 pandemic, including 46 WTO members. [19] The current export restrictions adopted by WTO members to prevent and control the epidemic may not only run counter to the WTO's principles of transparency and non-discrimination, but may even shake the foundation of WTO trade liberalization. This also impacts the stability of international trade and global value chains. If the price of medical supplies spirals due to a domino effect, it could face retaliatory restrictions from trading partners and even lose part of the market in the long run.

The underlying root issue is that WTO cannot alter the restriction policies adopted by each nation. As the first country to be affected by the pandemic and finally effectively controlled the epidemic, China has provided valuable experience for other countries in the prevention and control of the pandemic to some extent. China has recovered its strong producing capacity and are willing to export medical supplies overseas. However, export bans and restrictions imposed by some Member States to alleviate severe domestic shortages of medical supplies have the potential to cut off the supply of urgently needed medical products to import-dependent countries. Those restrictions cut off the supply chain of related resources which may damage both China and countries demanding medical supplies.

The COVID-19 pandemic has put new demands on the WTO's multilateral trading system and WTO rules. In its future reform, the WTO should consider integrating the rules on trade measures related to international epidemic prevention, which are scattered in various agreements, and formulate a normative system that systematically responds to global public crises. In the current epidemic response, China is supposed to continue to promote the normal operation of various WTO mechanisms and strengthen cooperation with other international organizations. China should continue to abide by WTO rules, firmly uphold the WTO multilateral trading system, and timely understand and notify the standards and regulations related to trade measures in foreign trade. Yet, China also needs to strengthen international cooperation to jointly respond to COVID-19 to push the recovery of world economic order.

#### ***4.3. The Emergence of Multilateral Trading System and Deglobalization***

Since the Uruguay Round completes, WTO takes distinctive attitudes toward each member based on the differences in economic conditions and national interests. Hence, there are inevitable conflicts between developed countries and developing countries given their different objectives. To be more specific, developed countries finds it difficult to achieve consensus through multilateral negotiations in WTO on several issues like technical standards, investment and competition policies, environmental and intellectual property protection. [20] Around a decade ago, with the United States and the UK gradually giving up, the Doha Round has reached an impasse. Different from the multilateral trade negotiation mechanism under the WTO framework, regional trade agreements can closely link the economic interests of member countries with more favorable trade and investment conditions. As a result, such regional agreements with small scope and low transaction costs have begun to flourish against the backdrop of the stalled Doha round. With the rapid development of regional integration strategies, regional agreements driven by marketization, openness and innovation have begun to move towards comprehensive standards. Under the regional agreements, the liberalization of trade in goods and services between countries are constantly improved.

The degree of trade dependence is an important trade index in current international trade studies, which reflects the close relationship between domestic economy and the global economy. [21] Some scholars combine China's trade dependence with FTA strategy to analyze its overall impact. For example, Shen Tongtong researched on the historical development of China's foreign trade dependence and concluded that the signing of free trade agreements had a significant positive effect on the growth of China's foreign trade dependence in 2017. [22] In addition, Liu Sujun adopted panel data from 1995 to 2015

and combined with the PPLM regression model to verify the significant increase in China's import trade brought by the FTA, indicating that China has a relatively significant trade creation effect after signing the FTA in 2018. [23]

Consequently, WTO members found it impractical to obtain the consent of all participants through a consultative mechanism. Due to the consideration of own nation interests, it's difficult to reconcile the complex differences generated by the parties, and members increasingly turn to potential partners for direct trade negotiations. China has strengthened its economic and trade ties with neighboring countries through the construction of free trade areas which benefit those foreign trade enterprises. [24] Under such a circumstance, China ought to develop free trade agreements with the permission of WTO framework.

## 5. CONCLUSION

In this review, through how WTO reached its prosperity in the last century by explaining the process of Uruguay Round and how it gradually declined through review of the Doha Round, we conclude that China's accession to WTO means equal benefits to both itself and WTO and carried global implications. Meanwhile, WTO became a more influential organization and China's status in international market has risen. Furthermore, we figure out the current problems of WTO and related influence on China can be divided into three major aspects. First of all, the trade policy review mechanism of WTO has limited power on supervising and balancing the actions of powerful countries which damages development of the manufacture industry of the developing countries especially China. Subsequently, the world economy suffers from a disorder due to the spread of the COVID-19. As WTO can hardly alter this situation, Chinese enterprises tend to be damaged by those restrictions. Last but not least, the emergence of multilateral trading system and deglobalization adds the difficulties of negotiations under WTO's framework. However, China can still seek for developing opportunity with the double-track policy combining multilateral free trade agreements and WTO agreements. Ultimately, on the basis of our review of WTO development and recent situations, we came up with the possible suggestions for both WTO and China to cope with the current problems mentioned above.

### 5.1. Suggestions for WTO Reform

WTO can seek for further cooperation with other international organizations like World Health Organization. As a multilateral trade organization and the decision-making of operation, WTO plays an important part in the global economy. Other international organizations also act an irreplaceable role in their

respective professions. The COVID-19 pandemic is a direct threat to the lives and health of all mankind and has indirectly caused irreversible negative impacts on all aspects of the world economic order. The WTO should consider strengthening organization cooperation with other international constitutions to jointly cope with the human disaster.

WTO is supposed to strengthen the connection of its internal mechanisms. There are three major mechanisms called, trade negotiation mechanism and dispute settlement mechanism under the framework of WTO. The close links among mentioned WTO procedural mechanisms will enhance the authority effectiveness of TPRM review results. Related to the trade negotiation mechanism, the function of trade policy review mechanism can be expanded to coordinate the trade policies of WTO members. Furthermore, the feedback mechanism of TPRM review results can be toughly constructed. With the potential role of discovering new trade issues forming consensus among members, the firm cooperation between TPRM and trade negotiation mechanism plays a positive role in promoting trade policy development.

### 5.2. Suggestions for China

The Chinese government can take reasonable measures to assist Chinese enterprises to cope with the crisis brought by the current problems of WTO. Primarily, the China government should further stimulate the domestic market and orderly guide qualified foreign trade enterprise to strive for the integration of domestic and foreign trade. The China government should actively encourage enterprises to actively seek for the domestic related industry chain partners. Subsequently, Chinese government departments ought to take advantage of policies like tax deduction, tax refund, credit insurance and other means to stabilize the export volume of foreign trade enterprises. Meanwhile, it's meaningful to strengthen risk protection for foreign trade enterprises. Ultimately, government ought to put more investment in the new science and technology institutes. The increase of scientific research will speed up the process of industry transformation and upgrading.

In a more micro perspective, Chinese enterprises should adjust their production and operation according to actual conditions. Firstly, the target area of export can be appropriately transferred based on the recent conditions of specific nation. What's more, the adjustment of transportation mode such as shared container mode can be considered. Also, Chinese companies should utilize digital economy and vigorously develop new models of business like cross-border e-commerce. In detail, emerging online exhibition platform provides online transaction consultation services for enterprises. Making full utilization of big data, Chinese firms can establish an

international trade information sharing mechanism to communicate with other countries.

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