

# World Trade Organization (WTO)



Topic(Intermediate)

**Resolving the Ongoing Trade War Between  
the United States and the People's Republic  
of China**

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## Introduction to the Committee

The World Trade Organization (WTO) is the primary international body responsible for creating and managing the rules of trade between nations. Its main mission is to ensure that global trade flows as predictably and freely as possible to support economic growth and sustainable development. The Organization was established in 1995 to replace the General Agreement on Tariffs and Trade (GATT). While the old system only dealt with physical products, the WTO does much more. Today, it sets the rules for products, services (like banking), and ideas (like inventions). It helps make sure that trade between countries is fair and easy for everyone.<sup>(1)</sup>

The organization is built on several foundational principles that ensure fairness in the global market. The most important of these is non-discrimination, which is divided into two parts: Most-Favored-Nation (MFN) treatment, which prevents a country from giving special trade favors to one member without giving them to all others, and National Treatment, which ensures that imported goods are treated the same as locally produced ones. Additionally, the WTO promotes transparency by requiring members to publish their trade rules and encourages reciprocity, where nations exchange trade concessions to lower barriers for everyone. As of 2026, the WTO is a universal organization with 166 member states, representing over 98% of global trade and GDP.<sup>(2)</sup>

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## Background to the Issue

### Chapter A: Key Definitions and Regulatory Approaches

**Subsidies and State-Owned Enterprises (SOEs)** are at the heart of the disagreement over how a fair economy should work. A subsidy is financial help from a government to a company, such as cheap land or low interest loans. The U.S. argues that China's massive SOEs, large companies owned by the government in areas like banking and electric vehicles, receive unfair advantages, and this makes global prices unfair. On the other hand, China says that U.S. laws like the Inflation Reduction Act and the CHIPS Act also give illegal support to American companies. This argument over government support continues to fuel the trade war. <sup>(3)</sup>

**Tariffs** are like a tax paid at the border. When a country puts a high tariff on a product, that product becomes too expensive for people to buy. This is why tariffs are used as a "weapon" in the trade war. Nowadays, the U.S. uses them to hurt Chinese companies by making their goods too costly for American shoppers. In the WTO, every country makes a promise called a Bound Tariff, which is the maximum tax they are allowed to charge. However, in this war, the U.S. and China have ignored their promises. They have started using Retaliatory Tariffs, which are very high taxes (up to 125%) meant to punish the other side. Because the WTO's legal system is currently broken, there is no "police officer" to stop them from using these aggressive taxes. <sup>(4)</sup>

**Intellectual Property (IP) Theft and Forced Technology Transfer** are the main reasons the U.S. started its legal actions against China. IP includes things like software code or blueprints for a new car. The U.S. claims that China pressures foreign companies to share their secrets and technology with local partners in exchange for permission to do business in China. To fight this, the U.S. used a law called Section 301 to act like a detective. This law was used to investigate China and prove that these practices cost American companies billions of dollars. Because of this investigation, the U.S. decided it was fair to start the trade war and put high tariffs on Chinese goods to protect American inventions. <sup>(5)</sup>

**Non-Tariff Barriers (NTBs)** are rules or restrictions other than taxes that make it hard to trade. Think of them as obstacles in a race. Instead of making you pay a fee (tariff), a country makes a rule that is hard to follow. For example, they might limit the number of items allowed into the country (Quotas) or demand complicated paperwork (Licenses). Recently, "Export Controls" have become a powerful weapon. For example, China refuses to let important materials (like graphite or gallium) leave its borders. They claim this is for "National Security," but it is actually a way to hurt U.S. companies that need these materials for high tech products. These rules are a major problem for the WTO because they are "invisible." Unlike a simple tax, it is very hard for the WTO to prove if a country is using a rule for safety or just as a trick to block its rivals. <sup>(6)</sup>



**The Most-Favored-Nation (MFN) Principle** is the basic rule of the WTO that says all members must treat each other equally. If you give one country a special low tax rate, you must give it to everyone. The trade war challenges this principle because the U.S. and China have placed specific, high taxes only on each other. While the WTO generally forbids this kind of discrimination, both countries try to justify their actions using "National Security" arguments. <sup>(7)</sup>

**Trade Deficits and Currency Manipulation:** The U.S. has a trade deficit with China because Americans buy more products from China than China buys from the U.S. While some see this as a sign of weakness, economists point out that it often reflects high American consumption and low savings rather than "losing" at trade. Similarly, the U.S. has accused China of Currency Manipulation. If China keeps its money (the Yuan) "weak" or "cheap" compared to the Dollar, then a Chinese shirt costs very little in a U.S. store. The U.S. has accused China of doing this on purpose to win the trade war. However, international experts often find that China's money value is actually fair and not a trick. In the trade war, this topic is often used more for political speeches than for real economic reasons. <sup>(8)</sup>

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## Chapter B: Foundations and Framework

### 1949–1979

China's modern economy began in 1949, when Mao Zedong founded the People's Republic and introduced a state controlled command economy. <sup>(9)</sup> China spent decades isolated from Western international trade networks, choosing instead to focus on its own industrial growth and state run farming. China's involvement in global trade remained very low during this time, due to the economic instability. In 1972, President Richard Nixon, who was the 37th president of the U.S. visited Beijing, a strategic move designed to counter Soviet influence. <sup>(10)</sup> These diplomatic developments led to the establishment of formal relations on January 1, 1979, and the granting of "most favored nation" status to China in 1980. <sup>(11)</sup> These steps started China's integration into the global trade system, and all thanks to the U.S..

### 2001

China joined the World Trade Organization (WTO) in 2001. The deal was simple: China agreed to lower its taxes on imports (tariffs) and change its internal laws. In return, China got guaranteed access to sell its goods in global markets. For the first 15 years in the WTO, China was labeled a "Non Market Economy" (NME). This meant that if other countries thought China was selling goods too cheaply, they could use prices from other countries to calculate extra taxes (duties). This often made Chinese exports more expensive. <sup>(12)</sup>

Joining the WTO changed China completely. The country became the "factory of the world," which helped hundreds of millions of people escape poverty as foreign businesses moved their production there. However, this was very hard for American workers. Between 2001 and 2007, the U.S. trade deficit with China grew by more than \$200 billion. <sup>(13)</sup> In fact, competition from Chinese imports caused nearly 60% of all U.S. manufacturing job losses up to 2019. <sup>(14)</sup> While economic theories suggested workers would find new roles, they actually struggled with long-term unemployment and lower pay.

### 2002-2003

These economic shifts created intense political and legal tensions. In 2002, President Bush imposed tariffs on steel to protect U.S. industry. <sup>(15)</sup> By 2003, China was accused of keeping its currency weak to make exports cheaper, leading U.S. senators to threaten a 27.5% tariff. <sup>(16)</sup>

Around the same time, the technology sector focused on intellectual property concerns after Cisco (An American company) sued Huawei (A Chinese company) in 2003 for copying its software code. <sup>(17)</sup>

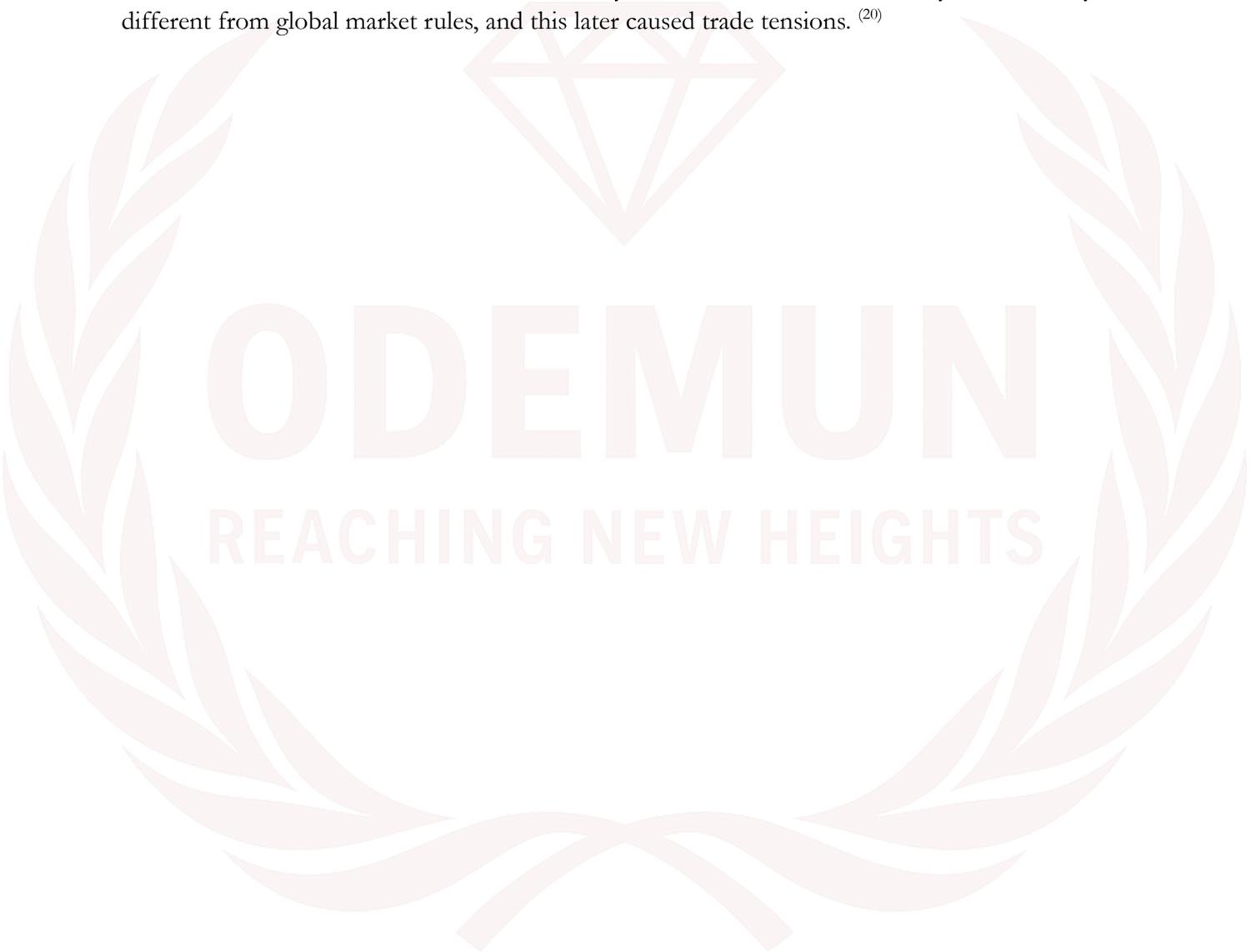
In addition to these events, there were bigger, fundamental problems with China's 'State Capitalism' system. The U.S. and EU argued that the market became unfair due to the dominant role of Chinese SOEs. A major legal fight began over whether the WTO should officially label these SOEs as public bodies. If they were labeled as public bodies, then the cheap, low interest loans they received would be classified as illegal government subsidies. <sup>(18)</sup>



## 2004-2007

Europe also felt the pressure, most notably during the 2005 "Bra Wars," when millions of Chinese textile items were blocked at ports.<sup>(19)</sup> This exposed a divide between Northern European retailers who wanted cheap goods and Southern European manufacturers facing bankruptcy.

By 2007, the initial positive expectations regarding China's WTO membership had decreased. U.S. officials noted that legal reforms were progressing slowly and questioned whether WTO rules were sufficient to address China's economy. It became clear that China's system was very different from global market rules, and this later caused trade tensions.<sup>(20)</sup>



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## Chapter C: Contemporary Challenges

### 2008-2017

After the 2008 financial crisis, China's government spent about 16% of its GDP to support its economy.<sup>(21)</sup> This allowed China to continue growing while Western economies stopped, which increased China's global economic influence. In 2012, Xi Jinping became leader, and in 2015, China started the "Made in China 2025" plan.<sup>(22)</sup> The goal of this plan was to shift from low cost manufacturing to advanced technology, such as AI, robotics, and semiconductors. During this time, the Obama administration tried implementing different strategies but without success. The trade deficit continued to grow, rising from \$273 billion in 2010 to \$375 billion by 2017. U.S.<sup>(23)</sup> workers and companies remained frustrated because China did not meet its promises regarding intellectual property, forced technology transfers, and government subsidies for its own businesses.

### 2016-2021

After Donald Trump won the 2016 election, he focused on reducing the trade deficit and bringing back manufacturing jobs. To do this, the U.S. stopped working with large groups of countries and started challenging China directly.<sup>(24)</sup> In 2017, the U.S. left the TPP trade deal and started an investigation (Section 301) into how China handles intellectual property. This led to a trade war in 2018.<sup>(25)</sup> The U.S. put tariffs on between \$370 billion and \$550 billion of Chinese goods. China responded by putting its own taxes on \$185 billion of American products, like farm goods and cars. These actions hurt both economies, costing the U.S. about 300,000 jobs and slowing down China's growth.<sup>(26)</sup> In January 2020, both countries signed a "Phase One" deal to stop the conflict. China promised to buy \$200 billion more in U.S. goods, but the COVID-19 pandemic ruined these plans. By the end of 2021, China was \$211 billion short of its goal, and the trade deficit remained high.<sup>(27)</sup> The pandemic also showed how much Western countries depend on China for supplies. Finally, the U.S. stopped the WTO from settling legal arguments by blocking the appointment of new judges.

### 2021-2024

From 2021 to 2022, the Biden administration kept about \$360 billion in tariffs on China in place. The relationship was redefined as "strategic competition," with a focus on maintaining a lead in technology. A major part of this was the 2022 CHIPS and Science Act, which gave \$52.7 billion in subsidies to support U.S. chip production and banned companies receiving this money from expanding in China for ten years. In October 2022, the U.S. also restricted China's access to advanced computer chips and equipment. In response, China limited the export of key minerals like gallium, germanium, and graphite. By 2024, the U.S. raised tariffs even higher in specific areas, such as increasing the tax on Chinese electric vehicles to 100%. During this time, the U.S., Europe, and Japan focused on diversifying their supply chains by moving production to countries like India, Vietnam, and Mexico. As a result, China's share of U.S. imports dropped from 22% in 2017 to about 17% by 2022, and Mexico became the top U.S. trading partner. However, China remains very important to the global economy because many factories in these other countries still depend on Chinese parts and funding.<sup>(28)</sup>



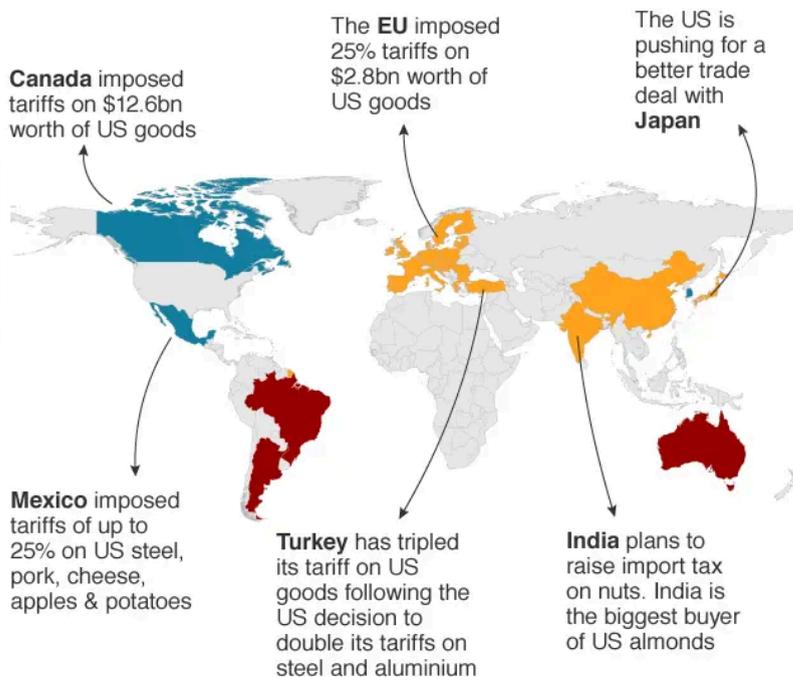
## Current Situation

### Chapter A: Current Challenges

Today, global trade has low growth and limited further escalation. This follows a period of high economic tension in 2025. Currently, average U.S. tariffs on Chinese goods are over 57%.<sup>(29)</sup> This rate is the result of "Fentanyl Tariffs" and other taxes introduced after Donald Trump returned to office. These high tariffs caused market instability and a decrease in global GDP growth. The competition now focuses on future technologies, including AI chips, 5G/6G networks, and green energy. China has a large production capacity for solar panels and batteries, while the U.S. supports its own electric vehicle industry through the Inflation Reduction Act. There was a recent disagreement when China limited the export of five rare earth minerals and goods made with Chinese materials. However, an agreement called the "Korea Truce" was reached in November 2025. Under this deal, China has stopped these export limits for one year.<sup>(30)</sup> Currently, Mexico is the top trading partner for the U.S., replacing China. This change happened because companies moved their production to countries closer to the United States. The trade conflict now also includes biotechnology and the green energy supply chain. Both countries continue to use the WTO to accuse each other of violating national security rules through trade.

#### Other trade battles since Trump took office

■ Trade disputes    
 ■ Renegotiated trade deals    
 ■ Trade exemption granted



Source: BBC Research

BBC



## Chapter B: Conflict Worldwide Affect

The world is changing how it buys and sells goods. Because of the conflicts in 2026, countries no longer care only about low prices and speed. Instead, they care most about safety and security. This change creates new risks for some countries, but it also brings new opportunities for others.

### The Connector Economies

A group of countries called "connectors" is winning from this change. These countries, such as Vietnam, Mexico, India, Thailand, and Poland, are becoming safe places for factories to move to. They help businesses avoid the high tariffs that the U.S. and China put on each other. Today, we see that while the U.S. and China trade less with each other, they both trade much more with these "connector" nations. For example, Mexico has now become the largest trading partner for the U.S. because many companies are moving their production there. However, the U.S. government is watching these countries closely to make sure they aren't just passing Chinese goods through their borders to avoid taxes. Also, countries like Vietnam need better roads and power systems to keep up with all the new business. <sup>(31)</sup>

### The Resource Nationalists

Another powerful group of countries has important natural resources like nickel, lithium, and copper. Nations like Indonesia, Chile, and Brazil are using these materials to change the rules. For example, Indonesia stopped selling raw nickel to other countries. Now, if a company wants their nickel, it must build a factory inside Indonesia. Chile is also being very careful with its lithium, working with both Western and Chinese companies to get the best deal. Brazil sells a large amount of food to China, but it has also started putting taxes on Chinese steel and electric cars to protect its own workers. These nations are using their natural wealth to force the superpowers to help them grow their own industries. <sup>(32)</sup>

### The Strategic Autonomists

Finally, some powers like the European Union, Saudi Arabia, and Turkey are trying to find a middle path. The EU wants to protect itself by reducing its reliance on other nations for vital technology like computer chips, while still keeping a broad trading relationship with China. Saudi Arabia is using its money to buy advanced AI technology from the U.S. while still staying close to China for energy and building projects. At the same time, Turkey is building new trade routes to become a main bridge between the East and the West.

Most countries are no longer just watching the trade war between the U.S. and China. They are now active players, changing their own economies to survive in a divided world. This new system makes goods more expensive and causes prices to rise, but it can also make some nations stronger. The old rules of global trade are mostly gone. In their place, we now have a world of small deals and alliances based on security and power. <sup>(33)</sup>



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