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Trump, China, and the Future of the Global Trading System

analysis

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Photo courtesy of the [World Trade Organization](#).

It has become conventional today to deride the World Trade Organization—with its patchy record of occasionally successful, but more usually interminable, negotiations—as the lowest common denominator of international trade. In the Brexit debate in the United Kingdom, a possible fallback on “W.T.O. terms” is seen by many as the worst possible outcome.

Yet the W.T.O. still provides the foundation of the global trading system through its general principles such as non-discrimination, specific agreements in areas ranging from intellectual property to food safety, and basic market access commitments. This is the unseen “plumbing” which is all too easy to take for granted.

Those outside the system can be easy prey to discrimination, which is why membership has grown from the 23 original signatories of the General Agreement on Tariffs and Trade in 1947, to 128 when the W.T.O. came into existence in 1995, to 164 today with a further 22 countries in the process of joining.

China provides an outstanding example of the benefits of W.T.O. membership. Many in China, with justification at the time, feel that the

terms of its accession at the end of 2001 were harsh. Yet between 2000 and 2007 China's exports more than quadrupled, while its total trade in goods rose from about US\$400 billion in 2000 to nearly US\$4 trillion in 2017. There could be no better illustration of the value of the certainty and predictability inherent in the W.T.O.'s rules-based international trading system.

So What Went Wrong?

We now have a situation in which the U.S. has unilaterally imposed, on grounds of national security, additional tariffs on US\$250 billion worth of imports from China. China views these as flouting both the U.S.' tariff commitments in the W.T.O. and the principle of non-discrimination.

In a sense, the W.T.O. appears to have become a victim of its own success. But this is not how the Trump administration sees it. Its charges against the W.T.O. are several and serious. They have been crystallized by the rise of China but, in fact, the origins of this disillusion are wider, more deep-seated, and pre-date the current U.S. administration.

The W.T.O.'s approach to trade and development is outdated.

First, according to President Donald Trump, the terms of China's accession to the W.T.O. were too generous. This overlooks the extremely delicate nature of the 15 years of negotiations, the serious heart-searching on the issue both in the U.S. and China, and the enormous effort China had to make to adjust to W.T.O. norms.

Secondly, the W.T.O. has failed to update its rule book. Under-regulated practices such as forced technology transfer, data localization, and intellectual property theft distort markets. In particular, the rules are inadequate to discipline China's model of state-driven, state-subsidized economic development.

Thirdly, inertia and lethargy have superseded the initial energy and action evident in the early years of the institution. The membership of the W.T.O. now engages in endlessly circular, politically motivated debates, while some committees are moribund.

Fourthly, the W.T.O.'s approach to trade and development is outdated. Monolithic characterization of countries as "developed" or "developing" no longer fits the multipolar, highly differentiated modern economic landscape.

Finally, and perhaps crucially, the W.T.O.'s dispute settlement system has gone off the rails. Its Appellate Body, in the view of the U.S., has overreached its mandate and become too intrusive into domestic regulation. In its defense, members of the W.T.O. bring issues for adjudication and expect the Body to make rulings. Furthermore, the inability of countries to clarify ambiguities in agreements forces it to make difficult decisions.

The Threat

The Obama administration shared—and strongly articulated—many of these misgivings about the W.T.O. What is new is that the current administration is now directly threatening to leave the organization unless, as U.S. Trade Representative Robert Lighthizer has said, it “shapes up.” While many in the U.S. Congress might share the administration’s list of grievances, a substantial body of opinion understands the importance of having a unified, enforceable global trading system.

Without the umbrella of the W.T.O., the system would become even more labyrinthine, asymmetrical, and business-unfriendly.

The U.S. itself would be among those that would suffer. To take just one example: theft of intellectual property, one of the U.S.’ main charges against China. Implementation of the W.T.O.’s Agreement on the Trade-related Aspects of Intellectual Property (TRIPS) has tracked a remarkable increase in U.S. earnings from licensing its intellectual property. According to I.M.F. data, U.S. inventors and creators received US\$128 billion from intellectual property licenses and franchises from foreign partners in 2017. Departure from the W.T.O. would remove any enforceable rights of protection in all but the few countries with parallel bilateral agreements with the U.S.

A W.T.O. without the U.S. would lose credibility. Many important countries have compelling, overarching bilateral relationships with the U.S., in trade as well as in other areas of international cooperation. They would be in a quandary, but might feel that they need to follow suit. A world with two opposing trade clubs would have highly detrimental consequences for growth and employment.

Preferential trade agreements between groups of countries do not offer a viable alternative. Instead, they create vastly differing market access and trade rules. Without the umbrella of the W.T.O., the system would become even more labyrinthine, asymmetrical, and business-unfriendly.

A W.T.O. Reform Agenda

The good news is that many countries understand the threat and the high stakes at play. The issue of W.T.O. reform, long discussed in the corridors, has now surfaced in a meaningful and more realistic way. World leaders have long talked about the W.T.O. as if it were a sick institution but there was never any follow-through because their abstract pronouncements were based on the false premise that the W.T.O. had an independent existence separate from its membership.

Progress in reforming the global trading system is likely to be slow, and quick results cannot be expected.

Now, for the first time, groups of members have recognized that they have to take responsibility. The European Union has published a set of reform

proposals. Canada is convening a group of countries with broadly similar aims. The ideas being floated respond to many of the U.S. complaints, but also reflect wider disillusionment. Suggestions include modernizing the trade rules; improving efficiency and effectiveness; safeguarding and strengthening dispute settlement; a new approach to flexibilities for developing countries; nimbler decision-making; and strengthening the W.T.O. Secretariat.

A New Consensus Is Needed

Underlying many of the problems in the global trading system is the current lack of a consensus on its purpose. W.T.O. members might agree on the need to promote growth and employment, but there are radically different ideas on how this is best achieved. For some, it is about progressive international trade liberalization, rule-making, and economic integration. For others, it is more about national economic independence, self-sufficiency, preservation of markets, and the ability to develop relatively free from the constraints of international rules. Many, if not most, would be somewhere in between.

Progress in reforming the global trading system is likely to be slow, and quick results cannot be expected. But at least the debate—too long delayed—has started. For that, we may even be grateful in the long term to Trump and to China. Supporters of a truly global trading system must hope for an all-round spirit of creative pragmatism because the price of failure would be extremely high.

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