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China and WTO Reform

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European University Institute
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Abstract

China, the EU and the U.S. are the world's largest traders, and many of the tensions in the trading system arise in the relations among them. Our premise is that reforming WTO is a necessary condition for the organization to be a more salient forum for the three large economies to address trade tensions, and that agreement among these three trade powers in turn is necessary to resolve the problems of the WTO. After a brief discussion of the global challenges that ought to be on the WTO agenda and of the systemic context, we discuss both how China understands WTO reform, and how the other two leading powers see the China problem in the WTO. We consider how the three see transparency, plurilateral negotiations, economic development differences, fisheries and industrial subsidies, WTO working practices, and dispute settlement. We conclude by considering the implications of our analysis for fostering cooperation between the three major trade powers in the WTO.

Keywords

World Trade Organization; China; policy spillovers; trade conflict; multilateral cooperation; WTO reform; trade agreements; dispute settlement

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Introduction

The holy trinity of the World Trade Organization (WTO) is broken. *Negotiations* on new rules depend on confidence that existing rules will be *implemented*, which requires notifications for robust committee review and *dispute settlement* when clarification is needed, which sometimes should lead to new negotiations rather than authoritative adjudication. When negotiations are blocked, however, some Members are tempted to take unilateral measures to address their problems and/or to pursue bilateral solutions. Most Members want WTO reform, even if they have different aspects in mind. This is reflected in the outcome of the 12th WTO Ministerial conference held in Geneva in June 2022, which instructs the WTO General Council and its subsidiary bodies to develop proposals on how to improve all functions of the organization for consideration.¹

In this paper we focus on how China understands WTO reform, and how the other two leading powers see the China problem in the WTO. China, the EU and the U.S. are the world's largest traders, and many of the tensions in the trading system arise in the relations among them. We discuss elements of the WTO reform agenda through the lens of positions that have been taken by the three major trading powers. In an original survey of the expert trade policy community conducted in June 2020, hereafter referred to as Survey, we found that respondents from the EU and the U.S. are broadly aligned on the WTO reform agenda, while respondents from China often diverge in the priorities accorded to these subjects (Hoekman and Wolfe, 2021; see also Fiorini et al. 2021). Our aim is to shed some light on areas of alignment, or absence of alignment, across these three players on the main subjects associated with reform debates.

Our premise is that rising trade conflicts between major players are a signal of both political and economic tensions; absent reform the organization will be less able to assist major Members to attenuate economic conflicts. In turn, agreement among the three major trade powers is necessary to resolve the problems of the WTO. The rules must be seen to support the generalized gains from open trade and global production, not an attempt to isolate or reform China's economic (or political) system. At the same time, China should accept that it has a leading role to play in the regime. As is well known, the WTO has been struggling, reflecting differences in priorities across the membership, an erosion in mutual trust, and working practices that have impeded efforts to agree on changes to the rulebook. Consequently, most new rulemaking has been occurring in preferential trade agreements (PTAs), not the WTO, with high-income countries increasingly focused on attempts to negotiate deeper agreements that include rulemaking in areas that go beyond the WTO.

We begin in Section 1 with a brief discussion of the global challenges that ought to be on the WTO agenda and why China is central in making progress in addressing them through international cooperation. Section 2 discusses key dimensions of 'fixing the machine' – reforming working practices and mechanisms to provide transparency, support deliberation, and resolve disputes, while Section 3 does the same on issues related to reform of negotiation modalities, the recent return to new rulemaking among groups of WTO Members on a plurilateral basis, and way that differences in economic development levels are reflected in the WTO. We do not discuss all these areas in depth but refer the reader to the recent literature on this subject.² Throughout, we consider the positions that China has taken, as well as those of the EU and the US. In Section 4 we reflect on the potential implications of China's application to join the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP) for the prospects for WTO reform. What matters for the trading system is that the decision to apply signals a willingness by China to engage on many issues that should be – and in part are – on the table in the WTO. Section 5 concludes.

1 See https://www.wto.org/english/thewto_e/minist_e/mc12_e/documents_e.htm.

2 Recent research on WTO reform includes Evenett and Baldwin (2020), Liu (2019), Hoekman, Tu and Wang (2021).

1. Substantive policy challenges for the WTO Membership

Rapid growth in global trade in recent decades was associated with a sustained rise in production of manufactured products in emerging economies, notably China, often as part of – intermediated by – global value chains (GVCs). The resulting rebalancing of global output and incomes gave rise to adjustment pressures in the United States and other OECD countries. These in turn fostered perceptions that China’s export success reflected use of policies that unfairly advantaged Chinese firms. This became a factor in the ‘backlash against globalization’ observed in many high-income countries. Such adjustment pressures will continue to arise as the world economy, driven by technological and organizational innovations, shifts towards services activities and trade comes to involve more e-commerce and cross-border digital transactions. Changes in technology, and efforts to address climate change, will impact on segments of the labor force that have previously benefitted from, or been relatively sheltered from, internationalization.

Global trade governance has not kept up with ongoing changes in the structure of the world economy and shifts in the composition of cross-border flows. Competition between governments to stimulate domestic economic activity through ‘make it here’ policies is growing. Such national policies may give rise to negative cross-border spillovers, either by design or inadvertently. Policies may be designed to limit the ability of foreign firms to sell goods and services and constrain the ability of firms to utilize new technologies. Addressing the associated cross-border policy spillovers calls for international cooperation.

Theory, supported by extensive evidence, suggests that addressing cross-border policy spillovers, whether pecuniary or non-pecuniary, is a major motivation for the negotiation of trade agreements, along with a political economy (commitment) incentive for cooperation. Although global trade was relatively robust in the past decade, implying weaker incentives to engage in multilateral trade agreements than is sometimes supposed by observers, the rising prevalence of trade conflicts associated with the adoption of unilateral protectionist trade policies in major economies suggest there should be a strong basis for such cooperation. However, geopolitics and serious internal political constraints confronting trade policymakers (“worker centrality” in US; conditioning trade on ‘values’ in EU; resistance to external pressure in China) raise the question whether trade agreements are feasible even if policy spillovers are significant.

Alleged international competitive spillovers of subsidies play a major role in the trade tensions between the U.S., EU and China (Mavroidis and Sapir, 2021). Subsidies can help to address market failures and therefore might have a good economic development rationale despite giving rise to potential negative cross-border competitive spillovers. As discussed at greater length in Hoekman and Nelson (2020), this is not simply a China issue. Subsidies of one type or another constitute the great majority of trade interventions imposed since 2009 (Evenett and Fritz, 2021), and the difficulties of crafting appropriate disciplines go back to the original GATT negotiations of 1947. The WTO prohibits export subsidies and has mechanisms through which Members can countervail subsidized imports and challenge adverse effects of subsidies through dispute settlement procedures. Subsidies are a central focus of two ongoing negotiations, on domestic support in agriculture and support for fishers. China supports disciplines that prohibit fisheries subsidies that contribute to overcapacity and overfishing and eliminate subsidies that contribute to illegal and unregulated fishing, but also notes the importance of “recognizing that appropriate and effective special and differential treatment for developing country Members and least developed country Members should be an integral part of the negotiations” (WTO, 2019d).³

³ Prospects for success were complicated recently by proposals (insistence) by the US to include prohibitions on forced labor in any agreement on fisheries subsidies, which is opposed by China.

The tensions among China, the EU and the US are particularly acute with respect to industrial subsidies. Rather than engage in discussions at the WTO, the US engaged in unilateral action (see Hillman, 2022), as well as a trilateral process with the EU and Japan to address “concern with the non-market-oriented policies of third countries and [...] actions being taken and possible measures that could be undertaken in the near future.” In a May 2018 statement Trilateral ministers endorsed a joint scoping paper defining the basis for the development of stronger rules on industrial subsidies contributing to excess production capacity in sectors such as semiconductors, steel, aluminium and others, and on state-owned enterprises (SOEs) (USTR 2018a). A subsequent series of Trilateral meetings has made little progress. In an implicit response, Vice Minister Wang, in a press conference on the WTO Trade Policy Review of China in 2021 said that China was open to starting negotiations on subsidies within the framework of WTO reform, mentioning three specific ideas: first, agricultural subsidies must be discussed at the same time as industrial subsidies to ensure fair competition in both important areas; second, tightening trade relief disciplines such as countervailing and anti-dumping should be discussed to solve the current abuse of trade relief measures; third, it should discuss the issue of restoring non-litigable subsidies, which is needed to leave policy space for members to cope with the epidemic and climate change (China, 2021).

To give another example of an area where the three powers diverge, the global regime for data flows is highly fragmented, ranging from essentially laissez-faire approaches in some countries (with the US being on this end of the spectrum), to more tightly regulated environments in others, whether motivated by protection of privacy and citizen rights, perceived security imperatives or concerns about market power and abuse of dominant positions by lead firms. The EU and China are both on the more regulated end of the spectrum, with the EU maintaining a conditional flow regime and China imposing tight restrictions in specific areas, e.g., on location of computing facilities (Ferracane and Li, 2021) Trade agreements are beginning to include specific obligations on cross-border data flows, and some jurisdictions are establishing “equivalence regimes” that determine whether foreign providers will be treated in the same way as domestic firms when it comes to access and processing of data. The consequences of the potential for resultant creation of “data blocs” for global wellbeing – and global trade – are still poorly understood, whether from the point of view of individual consumers interacting with websites or social media, or from the point of view of companies looking to leverage digital technologies to boost productivity or expand markets.⁴

The technological developments generating structural transformation and national policies that are both causes and responses to shifts in global trade shares call for revisiting and updating international trade rules. Realizing this potential requires WTO reforms. To a significant extent, achieving such reform depends on China.

1.1 Why China is central to ‘WTO reform’

Although WTO reform pressures in part reflect increasing dissatisfaction with the operation of the organization by many WTO members, especially its negotiation function leading to an inability to adapt to a changing global economy, a major trigger for the rising prominence of calls and proposals for WTO reform is the impact of China on the trading system. Progress in the WTO will require recognition by all three major players that China must now play a leadership role commensurate with its weight in the world economy. China has indicated it will accept reforms that make the WTO better for all Members, but not ones that challenge its identity as a developing country, that deny it scope for how it organizes its economy, and that fail to recognize its status as a major power (Gao, 2021; Liu, 2019, Tan, 2021). In a submission to the General Council (WTO, 2019b) China indicated that it supports WTO reform if core values of the multilateral trading system such as non-discrimination and openness, safeguards for the development interests of developing Members, and decision-making by consensus are preserved.

⁴ Data flows and digital regulation more broadly are particularly important for firms that rely on data as a core part of their business, e.g., platform companies and providers of ‘software as a service’. See e.g., Ferracane and van der Marel (2019).

The U.S. has repeatedly expressed its serious concerns with China's non-market-oriented economy and associated policies and practices "that have resulted in damage to the world trading system and lead to severe overcapacity, create unfair competitive conditions for workers and businesses, hinder the development and use of innovative technologies, and undermine the proper functioning of international trade (WTO, 2020a)."⁵ This theme was echoed in the inaugural joint statement of the U.S.-EU Trade and Technology Council on September 29, 2021. Chinese scholars recognize this U.S. view, which they contrast first with "the vast number of developing members represented by China who adhere to the basic purposes and principles of the WTO", and second with the compromise position of such major economies as Europe, Canada and Japan (Liu, 2019).

China made clear in its submission on WTO reform (WTO, 2019b) that it sees the U.S. as the problem, with proposals on breaking the impasse of the appointment process of Appellate Body members, tightening disciplines to curb the abuse of national security exceptions; and tightening disciplines on unilateral measures that are inconsistent with WTO rules. China's suggestions on improving trade remedies rules target areas where developed countries could be said to have abused the existing rules, for example on price comparison in anti-dumping proceedings, or subsidy identification, and calculation of benefits conferred. Chinese officials consistently make the obvious and valid point that the market is not given free rein in OECD countries. These Chinese views are fair but are also a deflection from the core issue: coming to a shared understanding of the role China must play in the system.

2. Fixing the Machine

As discussed at greater length in Hoekman, Tu and Wang (2021) and Hoekman and Wolfe (2021), WTO reform spans two sets of issues: (i) improving working practices and the operation of the institution ('fixing the machine'); and (ii) overcoming obstacles that impede the negotiation of new trade policy disciplines. This section discusses the first set of issues; the next section turns to the second challenge.

2.1 Improving transparency

Transparency of actor behavior and expectations is a core requirement of international regimes. This objective requires high quality information (Wolfe, 2018). The WTO agreements have dozens of formal notification obligations; compliance varies by committee and by Member. Transparency problems are also evident in the current crisis. The WTO website lists regular (required) notifications with a COVID-19 connection, voluntary reporting of COVID-19-related measures, responses to Secretariat requests for information and the Secretariat's own information derived from web scraping and news reports.⁶ There are problems with all these sources of WTO information.

Inadequate notification of trade policies is an old issue, but its inclusion on the "WTO reform" agenda only began at the 2017 Ministerial Conference when Robert Lighthizer, then the United States Trade Representative, said that "it is impossible to negotiate new rules when many of the current ones are not being followed. (USTR, 2017)." The U.S. tabled a detailed proposal that reviewed how compliance with notification obligations under the Trade in Goods agreements is unsatisfactory. The U.S. proposal included punishment for Members who are behind in their notifications (WTO, 2017). Although not explicit, the target was clearly China.

⁵ See also Hopewell (2022).

⁶ https://www.wto.org/english/tratop_e/covid19_e/covid19_e.htm

Whether and to what extent China is not fulfilling its WTO notification obligations is an open question. In its recent self-report for the TPR it said (WTO, 2021c, 4.24) that it “has fully fulfilled its obligations of notification under all WTO agreements.” In its report for the TPR the Secretariat observed (WTO, 2021d, 2.22) that “some notifications, including those on state trading enterprises and domestic support, remain outstanding.” During the TPRB meeting to review the reports, most questions posed by members had to do with notifications and transparency. Whatever the facts of the matter, threats to identify the Chinese ambassador as a “Member with notification delay” when offered the floor in the General Council as in the revised U.S.-led proposal (WTO, 2021a) will not enhance WTO transparency. China, along with most developing countries, will never join a consensus on the proposal as it stands. But Chinese respondents in the Survey expressed stronger preferences than the other two for improving transparency. China does recognize the notification problem (WTO, 2019b) and is willing to engage in discussion of improvements, starting naturally with developed countries leading by example (Li and Tu, 2020, 859).

The periodic monitoring reports prepared by the Secretariat ought to be able to provide information that supplements notifications. The reports aim to enhance transparency of trade policy developments, consistent with the mandate of the Trade Policy Review Mechanism to aid in understanding Members’ trade policy but not to assess compliance with formal obligations. The reports therefore do not cover “subsidies”, which are defined for legal purposes in Article 1.1 of the ASCM, but they should in principle cover the full extent of the “general economic support” provided by governments. They do not. Central to coverage of general economic support, which goes beyond formal notifications, are responses to periodic questionnaires issued by the WTO Director-General (DG). The overall response is weak, and the response on general economic support is dismal. For the most recent report, 67 WTO Members and one Observer volunteered information on 638 COVID-19-related general economic support measures. The EU did so; the U.S. and China did not. The U.S. is less cooperative than China or the EU with the trade monitoring exercise, neither responding to the DG’s questionnaire nor verifying information the Secretariat found in other places (WTO, 2020b, Appendix 1). The latest Global Trade Alert report makes a valuable contribution to closing the transparency gap on subsidies provided by the big three (Evenett and Fritz, 2021), but they should do more themselves.

2.2 Improving the operation of WTO deliberative bodies

In the short term, agreement on binding rules on contested policies is unlikely to be possible simply because the major players are far apart in their understanding of the sources and magnitude of the problems that call for cooperation. What is needed first and foremost is engagement in processes to collect and share information, policy dialogue and peer review. This applies to a range of policy areas, including subsidies and SOEs. WTO members do not necessarily know enough about SOEs, not just in China but more broadly, to be sure whether and where SOEs create a systemic problem, and hence what ought to be done. A necessary condition for cooperation is a common understanding of the extent and spillover effects of contested practices (Evenett and Fritz, 2021). As noted by Hoekman and Nelson (2020), calling for work programs to do so may be criticized as kicking the can down the road. It is not. WTO members simply do not have enough information to develop a common understanding of where new rules are needed and the form they should take.

WTO committees and councils are first deliberative bodies for discussing emerging issues and addressing trade concerns without recourse to the dispute settlement system. Or at least they should be (Wolfe, 2020). The most effective WTO bodies in addressing trade concerns are the Technical Barriers to Trade Committee and the Sanitary and Phytosanitary Measures Committee. Members raise “specific trade concerns” (STCs) to seek clarification, including of already adopted measures, and discussion can lead to modification or even withdrawal of a measure that has adverse consequences for trading partners. Discussion of trade concerns is increasing in other bodies.

Since 1995, close to 6000 questions (much like an STC) have been raised in connection with individual notifications under the Committee on Agriculture (CoA) review process. Between mid-October 2014 and mid-October 2019 1,158 issues and concerns were raised in 129 formal meetings of 17 WTO committees and councils, other than SPS, TBT and CoA (WTO, 2020b). These numbers dwarf the number of formal disputes.

A handful of large traders make most frequent use of procedures to raise trade concerns, notably the U.S. and the EU. China is now number 5 on the list of users and is the target of more trade concerns than any country after India (WTO, 2020b). Still, the procedures could be more extensively used, and participation could be enhanced. One of the reasons for improving the discussion of STCs is to avoid escalation to the dispute settlement system, but Chinese respondents to the Survey get considerably less utility than respondents in the U.S. and the EU from using WTO bodies to defuse potential disputes by raising STCs. One suggestion for improvement is to establish guidelines for all WTO bodies. Tabled by the EU and supported by 19 other Members, including China, this proposal aims to make better use of the possibility offered by WTO Council and committee meetings to discuss and resolve concerns with trade-related measures by equipping them with horizontal procedural guidelines (WTO, 2021b).

The proposal encourages submission of written questions and answers, which would enhance transparency for other Members, or firms, having the same concern. Although the U.S. was cool to the proposal for obscure reasons, it made a similar proposal in the SCM Committee for ensuring timely written responses to questions posed by Members on the subsidy programs of other Members (WTO, 2020d). China has resisted every time the item comes up, including in the October 2021 meeting, arguing that the ASCM does not require members to submit responses to such questions in writing, nor to provide them within a specific time-period. In its view, setting deadlines as proposed by the U.S. would impose substantial new notification obligations on WTO members and cause difficulties for developing countries.

Policy dialogue in WTO bodies is important to consider what works well under agreements, what is not working, and what should be next on the agenda. Committees also need to hear from stakeholders who use their agreements, including regulators, other international organizations, and the private sector. Chinese and U.S. respondents to the Survey get more utility than EU respondents from greater engagement with stakeholders in WTO bodies. One instrument for such engagement are meetings that are sponsored by or associated with a WTO body in some way, but that are not part of its formal meetings and thus permit (in principle) participation by stakeholders. The WTO held over 100 such “thematic sessions” from 2017 through 2019 (Wolfe 2021). China was relatively well represented, with 9 Geneva-based Chinese government officials and 15 capital-based officials speaking in thematic sessions during the 2017-19 period, along with 7 business and 2 academic participants.

2.3 Dispute settlement and the Appellate Body crisis

A vital dimension of the “value proposition” offered by the WTO is independent, third-party adjudication of trade disputes reflected in the principle of de-politicized conflict resolution. An effective dispute settlement mechanism is critical for existing WTO agreements to remain meaningful, and for the negotiation of new agreements. The different pillars of the WTO are interdependent. Resolving the Appellate Body crisis and bolstering the dispute settlement function is critical for the continued relevance of the WTO.

The U.S. seems to believe that WTO adjudication is not the best way to resolve its concerns with Chinese practices. Although China lost many of the dispute settlement cases brought against it, Appellate Body rulings on key matters such as what constitutes a public body under the ASCM fuelled U.S. frustration (Ahn, 2021). The Appellate Body ceased operations in December 2019 because of U.S. refusal to agree to appoint new Appellate Body members and/or re-appoint incumbents. Resolution of the crisis requires reform of how the system works. U.S. concerns are long-standing, and the U.S. is not alone in at least some of its concerns (Fiorini et al, 2020). By the end of 2020, sixteen appeals were pending before the dysfunctional Appellate Body and only five new cases had been filed, the lowest for any of the WTO's 25 years. If appeal "into the void" remains possible, issued panel reports will have no legal value, unless the disputing parties forego their right to appeal, and accept the panel report as the final word in their dispute. The interim Multi-Party Interim Appeal Arbitration Arrangement (MPIA), which includes the EU and China, provides a short-term alternative but is not a solution (Hoekman and Mavroidis, 2020).

We speculate that China values a functioning system that provides some protection from the U.S., or at least some recourse if the U.S. does act unilaterally. Chinese scholars see the dispute settlement system as the first option to reconcile the relationship between China and its trading partners, hence wishing to be seen as a responsible player China is motivated to comply with dispute settlement rulings (Li and Tu, 2018, 121). China is much closer to the EU position than to the U.S. Having invested considerable effort in developing trade law expertise in government and academia, China became a sophisticated user of dispute settlement to push back on U.S. and EU use of trade remedy law (Shaffer and Gao, 2018). In addition to joining the MPIA it is a cosponsor of the proposal led by Mexico to re-start the Appellate Body appointments process—blocked by the U.S. at nearly 50 meetings of the DSB—and it has joined a proposal an Appellate Body reform with over 40 other Members.

Survey respondents from all three trade powers are of the view that re-establishing an operational dispute resolution system is a top priority, although Chinese respondents to the Survey get more utility than the EU and U.S. respondents from making the Appellate Body operational again and from considering reforms to dispute settlement processes more broadly. The U.S. would see no point in any kind of WTO reform that did not address this problem. Equally, the U.S. would see no point in any new agreements aimed at Chinese practices if dispute settlement remains slow and ineffective.

3. Negotiation obstacles: consensus and special and differential treatment

The accession of China at the 2001 Doha ministerial occurred in tandem with the launch of the ill-fated Doha Round at the same ministerial. The backward-looking Doha Round agenda prioritizing tariffs on manufacturing and agricultural support policies became increasingly disconnected from 21st century priorities as the negotiations dragged on eventually becoming deadlocked. One result was that policies affecting the digital economy, and cross-border data flows and foreign investment, among others, were neglected because a consensus could not be achieved to address issues that were not part of the Doha agenda.

With the Doha Round dead, in 2017 many countries decided to shift gears and move away from negotiations including all WTO Members and the working practice of consensus decision-making by launching so-called "joint statement initiatives" (JSIs), meaning simply talks inside the WTO among a subset of Members whose eventual outcome would make use of WTO transparency and dispute settlement procedures. The 2017 JSIs addressed e-commerce, domestic regulation of services, investment facilitation, and measures to enhance the ability of micro and small and medium enterprises (MSMEs) to capture trade opportunities.

Subsequently additional issues became the subject of discussion among groups among subsets of WTO members. Ministerial statements in December 2021 addressed three new areas where groups of Members have decided to pursue discussions.⁷

These joint initiatives include a broad cross-section of the members. But that does not mean that negotiations to establish new plurilateral agreements have been endorsed by all Members. Tu and Wolfe (2021) discuss the opposition to the JSIs led by India and South Africa. Unlike some other developing countries, Chinese officials are not opposed to the principle of pursuing plurilateral agreements in the WTO (Li and Tu, 2020).⁸ In its country report for its 2021 trade policy review China stressed its active participation in the current JSIs (WTO, 2021c). China has taken a leadership role in the JSI on investment facilitation, acting as a co-sponsor and actively encouraging participation by developing countries.

The move to plurilaterals is only a partial solution to the difficulty of concluding negotiations by consensus. Each negotiation can only be concluded if a critical mass of Members participates, whatever the legal form of an outcome. Plurilateral approaches therefore are not a panacea, but they offer a mechanism for large trade powers to cooperate without engaging in negotiations with all WTO members (Hoekman and Sabel, 2021). The EU paper on WTO reform (EU, 2021) contains an implicit warning: if no effective formula is found to integrate plurilateral agreements in the WTO, there would be no other option than developing such rules outside the WTO framework, which could fragment the system. The warning applies to India, and South Africa and to anybody tempted by their analysis, but it also applies to the three major powers. Plurilateral negotiations can break the dead hand of the single undertaking, but the risk of free riding by any of the three major powers means that each of China, the EU and the U.S. will be needed to reach a critical mass deal.

3.1 Special and differential treatment: a central negotiation obstacle

The prospects for agreement to be possible between the EU, U.S. and China will depend importantly on whether emerging economies insist on being accorded special and differential treatment and more generally on whether and how such agreements address development differences.

In May and November 2019, the U.S. submitted a proposal for a decision on “Procedures to Strengthen the Negotiating Function of the WTO” with criteria for assessing which countries will not avail themselves of SDT in WTO negotiations (WTO, 2019c). The U.S. asked for this item to be placed on the agenda of one General Council meeting after another in 2019 and 2020, with some support from other Members but unrelenting opposition from China and most developing countries. At the July 2020 meeting of the General Council the representative of China, echoing the introduction and much of the argumentation of an earlier submission on SDT by China and others (WTO, 2019a) said that in an international organization with developed and developing Members, non-reciprocity was a means and a principle to realise equity. He argued that reclassification of WTO members was not a way out. Rather than revisiting the current practice of self-designation of developing country status, he suggested those in a position to do so be encouraged to make a greater contribution to the best of their capabilities, which China was willing to do (WTO, 2020c).

⁷ These Ministerial statements addressed (i) Trade and Environmental Sustainability (WT/MIN(21)/6/Rev.2); (ii) Plastics Pollution and Environmentally Sustainable Plastics Trade (WT/MIN(21)/8/Rev.2); and (iii) Fossil Fuel Subsidies (WT/MIN(21)/9/Rev.1).

⁸ China joined the Information Technology Agreement and is in the process of acceding to the Government Procurement Agreement. China also participated in the Environmental Goods Agreement, though with a narrower list of goods than some other participants had wished, and had wanted to participate in the now moribund Trade in Services Agreement (TISA) negotiations but had been rebuffed (Hoekman and Shi, 2021).

During the October 2021 Trade Policy Review Body (TPRB) meeting on the report on China, Australia, echoing comments made by many others, including the EU and the U.S., encouraged China to play a more constructive leadership role in the WTO, including by relinquishing its access to special and differential treatment. Minister of Commerce Wang Wentao, who led the Chinese delegation, said that “In keeping with the principle of balanced rights and obligations, China is willing to approach special and differential treatment with pragmatism and make more contribution within the WTO that is commensurate with its capacity.” In a subsequent press conference in Beijing on the results of the review (China, 2021) Vice Minister of Commerce Wang Shouwen’s lengthy response to a question on SDT noted that “The report of the nineteenth National Congress of the Communist Party of China pointed out that China’s international status as the largest developing country in the world has not changed. China’s international status as a developing country has not changed.” This line comes right from the top. President Xi Jinping told Davos in January 2021 that WTO reform must protect the development rights and policy space of developing members (WTO, 2021c). Chinese officials will not give up the principle soon, regardless of what happens in practice.

The debate about the links between levels of development and the depth of policy commitments can be sterile. Low (2021) discusses ways to break the link between what a country calls itself and what access to SDT should be available. He stresses that most aspects of SDT require cooperative action of one kind or another from others besides the SDT recipients – the scope to invoke unilateral “flexibilities” in implementing WTO rules is limited. Nobody thinks China should expect SDT for any new market access commitments, or any other provision where the special treatment would be offered by another member.

In the Survey, resolving differences on SDT was not a huge priority for any of the three. A possible reason is a recognition that these three major traders will need to negotiate rules that apply equally to each of them, with specific commitments and exceptions agreed on an issue-specific basis. Doing so need not require China to abandon the principle of identifying itself as a developing country, nor does it need to abandon support for other members who may need SDT more.

4. Prospects for WTO reform: China’s CPTPP application

One of the questions about whether China can contribute to real WTO reform is how willing the country is to undertake new liberalization and regulatory policy commitments. Its leadership role in the Regional Comprehensive Economic Partnership (RCEP) might be an indicator, although RCEP is a relatively shallow agreement. More significantly, China has been paying close attention to TPP/CPTPP ever since the U.S. decided to join and reframe this initiative in 2009. At the time, China was greatly concerned about the intentions of the U.S. and the possible impact of the TPP on China’s position in the Asia-Pacific. One of China’s responses was to support and participate in RCEP.

The subsequent developments are well known. The TPP talks concluded successfully in 2016 with a draft text that was agreed by the United States. Despite this, President Obama never submitted the TPP to Congress for ratification, and President Trump withdrew the U.S. from the TPP on the first day of his presidency in January 2017. Japan then succeeded in transforming the TPP minus the U.S. into the CPTPP with 11 members later in 2017. In parallel, China and 14 other countries continued the RCEP negotiations, successfully concluding them at the end of 2020. To the surprise of many foreign observers, a few days after the conclusion of RCEP, President Xi Jinping announced that China was positively considering applying to join the CPTPP. There was no open opposition to joining CPTPP in academic debates, although there was some suspicion and concern about the feasibility of doing so. Premier Li Keqiang repeatedly claimed that China was open to it. In September 2021, the Chinese government formally submitted the application.

The application was not a big surprise for Chinese observers. There have been numerous discussions and much research on TPP/CPTPP in China since 2015. Many scholars are very excited about the text of TPP/CPTPP and believe that the text represents the most advanced and ambitious efforts of further international economic integration. Given that implementation of the third plenum reform agenda⁹ fell far below expectations, many argue that China needs foreign pressure to break through the obstacles in sensitive areas such as SOE reform and data regulation.

Many foreign observers doubt China's intentions in applying to the CPTPP. The assumption is that China could not accept the high requirements in CPTPP given its poor performance in reform and opening-up in recent years; they think that the application is just a gesture to the world but that China is not prepared to comply with the rules of CPTPP. A counterargument can be based on what China agreed to in the 2020 Comprehensive Agreement on Investment with the EU. Although ratification of this agreement has been stalled due to political factors and the CAI may never be implemented, what matters is that China accepted a range of provisions on matters that also will be on the table in the CPTPP, including on trade and sustainable development, i.e., non-trade issues, and disciplines on SOEs (see e.g., Kurtz and Gong, 2021). It is not reasonable to argue that China is not serious about CPTPP because reforms have been slow. Foreign observers often overestimate the ability of the Chinese government to enforce its policies throughout a huge country. There are countless bureaucratic obstacles to reform in the Chinese system. The central government needs international institutions to enhance the legitimacy and enforceability of its intentions—we know that WTO accession 20 years ago was used by reformers in China for just this purpose.

The application to CPTPP sends a strong signal to the world that China is willing to accept high-standard international rules, as long as the rules are widely considered legitimate and beneficial by other trading partners and Chinese society. Ironically, the rules included in the CPTPP were designed in part by the U.S. with the aim to establish a set of disciplines in which China would not have a voice. Adding to the irony is that the American government decided it was not willing to adopt the disciplines itself, a position that continues to be taken by the Biden Administration at the time of writing. The U.S. accuses China of disrupting the current rules-based international system but China's application to the CPTPP is regarded inside China as a strong riposte.

China is very aware of the political challenges associated with joining CPTPP. China's relations with CPTPP members Japan, Canada, and Australia are complicated and have deteriorated in recent years. But the negotiations will not be easy. China considers Japan to be a caretaker of U.S. interests, highly influenced by the latter. Economic considerations may dominate other concerns, as RCEP shows. Although Australia and Japan have problems with China, they ratified the RCEP agreement quickly.

CPTPP rules on technical issues such as SOEs, data flows, or labor standards are not always clear-cut and subject to interpretation of members. If some members do not have the political will to let China in or feel pressured by the U.S. to resist a country termed its only peer competitor, they could adopt interpretations of CPTPP provisions that make it more difficult for China. China is more comfortable with possibly making some difficult concessions in CPTPP because a smaller membership means less pressure on China. While the CPTPP chapters on SOEs, data flows, and labor standards are difficult for China, neither the US nor the EU are CPTPP members. China is not naïve about the negotiation process, but China believes that participation will offer great opportunity to both incumbent and future members. Accession to CPTPP would establish a basis for engagement with the other two major traders.

⁹ See e.g., Rosen (2014).

China's participation in CPTPP will surely affect China's position on WTO reforms, depending on the progress of China's negotiation to join CPTPP. The CPTPP goes further than the WTO on many issues, including in areas such as environmental regulation, labor standards, competition policy, investment liberalization, cross-border data flows, and SOEs. The CPTPP offers China a way to engage on these issues in a smaller group without offending other WTO Members. If the CPTPP process is successful, it would provide a basis on which China would be more comfortable to engage in WTO negotiations on new issues, including on a plurilateral basis through JSIs. An implication may be that patience will be required before it becomes clear what China is willing to commit to in terms of new rules on substantive policy areas.

5. Implications for future cooperation on WTO reform

WTO members face many problems that call for cooperation. Prominent items include ensuring a consistent response to global public health crises, resolution of conflicts regarding the use of industrial-cum-tax-subsidy policies, regulation of data privacy and cross-border data flows, and the appropriate role of trade policy in reducing the carbon intensity of economic activity. Revisiting the terms of engagement with China is a necessary condition for revitalizing the WTO as a forum to address these matters and to sustain an open world economy.

The challenge for China is to defend the existing international rules and its rights under them, while meanwhile exploring the possibilities of creating or supporting forms of cooperation that sustain its economic development. China's support for WTO reform and its application to the CPTPP are intended for that purpose. Reflecting on the priorities of respondents to the Survey (Hoekman and Wolfe, 2021) suggests that compromise will be needed all around on the design of a negotiating agenda or set of issues to be considered. Respondents from all three powers place great weight on resolving the dispute settlement crisis, with China-based respondents indicating that this is a particularly urgent priority. The Survey reveals a striking degree of correlation among respondents from all three major trade powers on assigning a high priority to the cluster of transparency-related issues. They are far apart on negotiating stronger rules on industrial subsidies, clarifying the role of trade policy in tackling climate change and promoting the sustainable development goals (SDGs).

In 2021, Chinese authorities, the media and academic institutions held a series of events to commemorate the 20th anniversary of China's WTO accession. The general tone was very positive. However, the emphasis was on China's contribution to the WTO and the world rather than on the benefits accruing to China from its WTO membership. China has given up hope that the United States will relax its efforts to suppress China's development. It is widely believed by the Chinese that the US has determined to decouple with China as much as possible. Although the US repeatedly argues that China has been disrupting the rules-based international system, China believes it is the US that has intentionally violated the rules established in the WTO because the outcome of trade liberalization in China and WTO membership has been beneficial China by making the economy more and more competitive. The view in China is that the US has neither the appetite nor the capability to support further liberalization – as reflected in the Biden Administration's disinterest in new trade agreements. The worry is that the US – the incumbent hegemon – now regrets having provided an international public good and is seeking to deprive China of its rights through calls for WTO reform that are code for relaxing existing rules to facilitate the imposition of import restrictions and measures to restrain China's exports and outward investment.

Chinese officials in Geneva profess support for WTO reform, but demand respect and non-discrimination. China does not accept being asked to do things that OECD countries do not ask of themselves. As discussed above, China also insists on the formal status of a “developing country” (Gao, 2021). But China is a very large economy, a very large trader and more prosperous than many other developing countries. China cannot expect to be granted the type of special and differential treatment that WTO members are ready to accord to low-income developing countries in any new agreements. What is needed is a political accommodation that ensures continued acceptance of the principle accompanied by pragmatic acknowledgement that reciprocity will apply among the three major trade powers in new negotiations.¹⁰

Nothing will happen in the WTO unless China, the EU and the U.S. want it to, but they will need to find ways to work together consistently, much as the old Quad did in bridging gaps between the EU and the U.S during the Uruguay Round. The effort would be worthwhile since the best place to work out the major differences between China and the other two is the WTO, especially since neither is likely to engage with CPTPP any time soon. Clearly all three have no difficulty with participating in plurilateral negotiations, but we argue that they should be working together on governance principles that would make a wider group of Members feel comfortable with such negotiations (Hoekman and Sabel, 2021; Tu and Wolfe, 2021). They should also be considering how best to manage open plurilateral negotiations outside the WTO including the development of open standards for new technologies in ways consistent with the TBT agreement (Lee-Makiyama, 2021). Compromise among the three ought to be possible.¹¹

While the single undertaking is dead, package deals are a negotiation reality. WTO ministerials need an agenda proposing a set of agreements that can attract a broad consensus. Without a forcing device, and if the results of each negotiation underway cannot stand on their own, how can they be knit together? The major powers have asymmetric interests with respect to any given trading partner. They also tend to have asymmetric interests on any one issue. IF the three must be part of a deal to get critical mass, and IF they have asymmetric interests, THEN they need a package of critical mass deals to reach agreement on any one of them.

When we look at the pattern of current initiatives, it is striking that at least one of the three is a supporter of each one. Can trade-offs be found whereby all three could assemble a package that they and others could support? While China co-sponsored the Informal Dialogue on Plastics Pollution, unlike the U.S. and EU, the EU is the only one of the three to sponsor the proposed statement on fossil fuel subsidies. China has joined the Trade and Environmental Sustainability Structured Discussions, as have the U.S. and the EU. China was a cosponsor (the U.S. was not) of an Ottawa Group proposal (WT0, 2021e) for a non-binding General Council declaration on the trade policy response to the COVID-19 pandemic that aims to ensure access to essential goods, including therapeutics and vaccines, by avoiding unnecessary restrictions and enhancing transparency. The EU cosponsored a U.S. proposal aimed to improve notifications, but China did not. China cosponsored an EU proposal on improving the work of committees, but the U.S. did not.

10 A step in this direction was taken at the 12th Ministerial conference of the WTO in June 2022. One outcome was a Ministerial decision on the TRIPS Agreement to the effect that developing countries may authorise the use of patented technologies to produce COVID-19 vaccines and supply these to other developing nations without the consent of rights holders (WT/MIN(22)/30). This decision includes a footnote encouraging developing countries with vaccine manufacturing capacity to commit not to avail themselves of this option. China did so, illustrating that developing country status in the WTO need not preclude differentiation in the application of rules.

11 We refrain from offering specific policy proposals that could form the basis of negotiations as our aim in this chapter was not to provide policy prescriptions, but to consider how the three major powers see WTO reform. Specific reform proposals can be found in the contributions to Evenett and Baldwin (2020), Hoekman, Tu and Wang (2021) and Hoekman and Mavroidis (2021b). Hoekman and Mavroidis (2020; 2021a) argue that reform of dispute settlement must go beyond the role of the Appellate Body and span the first stage panel process. Wolfe (2020) suggests greater use of WTO committees to defuse and address potential disputes, building on the experience in WTO bodies dealing with product standards in which WTO members can table “specific trade concerns” raised by applied or proposed standards in a WTO member.

Compromise on dispute settlement, the other big element of fixing the machine, will be harder, but updating the WTO rule book, the other part of what is meant by “WTO reform”, will not be enough for the major powers if all WTO can do is make progress on old issues. The WTO already has many new issues on its agenda, but its rulebook must expand to cover other emerging issues.

Is China ready? Its application to join CPTPP suggests a willingness to engage based on extensive preparatory work, but China’s contribution to WTO reform depends on engagement with the other two major powers. The initiation of discussions in the CPTPP context suggests negotiations on substantive policy matters between China, the EU and the US may need to wait until the CPTPP-related talks have progressed. Meanwhile a greater focus on deliberative processes in the WTO and prioritizing those elements of WTO reform that center on fixing the machine appear to offer greater scope for the big three to work together in preparing the ground for negotiating new agreements that span all three. Whether such agreements will be feasible remains an open question, as success is premised not only on China but on the willingness of the United States to consider and accept new disciplines. The CPTPP experience suggests this is by no means a given.

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