

China in the World Trade Organization

China in the World Economy, 2021

Questions from last time

- 1) What are „export controls“? What does it mean when we say that some of them are „extraterritorial“?

Questions from last time

- 1) What are „export controls“? What does it mean when we say that some of them are „extraterritorial“?
- 2) What are investment screenings?

Questions from last time

- 1) What are „export controls“? What does it mean when we say that some of them are „extraterritorial“?
- 2) What are investment screenings?
- 3) What is the name of China’s biggest semiconductor producer?

Questions from last time

- 1) What are „export controls“? What does it mean when we say that some of them are „extraterritorial“?
- 2) What are investment screenings?
- 3) How strong is China’s position in the semiconductor value chain compared to the United States?

Questions from last time

- 4) How can China's social credit system influence the decision making of corporations?

Questions from last time

- 4) How can China's social credit system influence the decision making of corporations?
- 5) When the US-Chinese trade war start? Which country was more hurt by it?

Questions from last time

- 4) How can China's social credit system influence the decision making of corporations?
- 5) When the US-Chinese trade war start? Which country was more hurt by it?
- 6) What are some threats to China's future growth?

Questions from last time

- 4) How can China's social credit system influence the decision making of corporations?
- 5) When the US-Chinese trade war start? Which country was more hurt by it?
- 6) What are some threats to China's future growth?
- 7) How would a liberal economist criticize China's industrial policies?

Your question from last time

- Does the Czech Republic have an investment screening mechanism?

Your question from last time

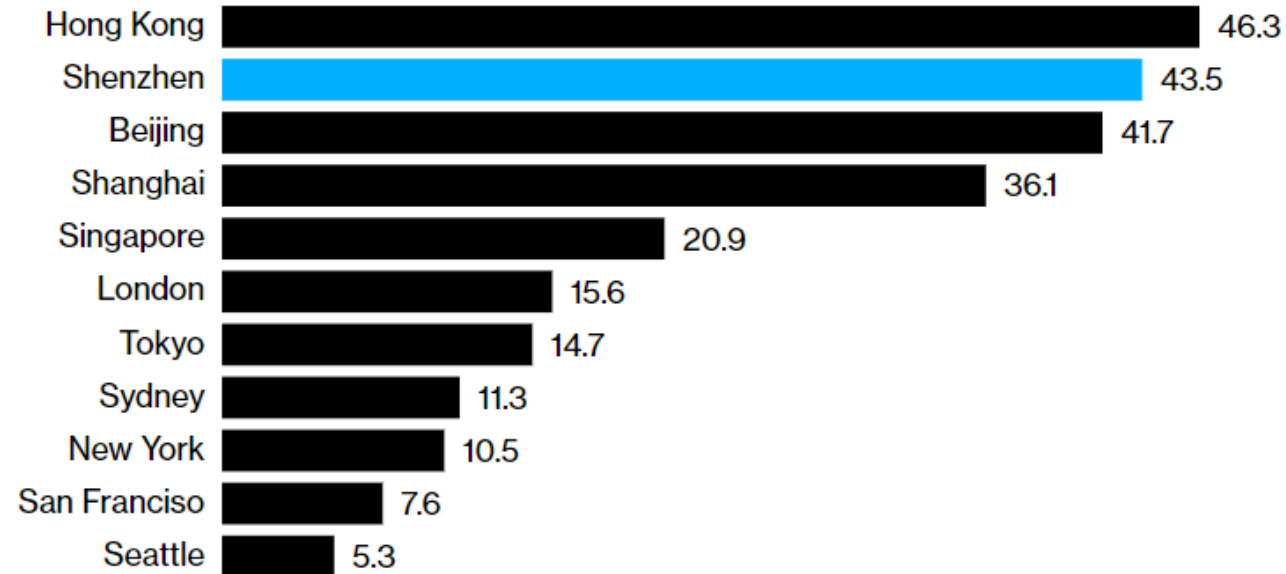
- Does the Czech Republic have an investment screening mechanism?
- **Yes** – since May 2021
- <https://www.mpo.cz/cz/zahranicni-obchod/proverovani-zahranicnich-investic/>

Your question from last time

Hard to Afford

Shenzhen's housing affordability is only a notch better than Hong Kong

■ Housing price-to-income ratio



Source: E-House China Enterprise Holdings Ltd.

Today

- Discussion about the benefits of free trade

Today

- Discussion about the benefits of free trade
- The World Trade Organization and its rules

Today

- Discussion about the benefits of free trade
- The World Trade Organization and its rules
- China's entry into the WTO
- Its compliance with WTO law
- Its positions on contentious issues

The World Trade Organization

- Meant to promote free trade

Free trade vs. protectionism

- Meant to promote free trade
- Is free trade good?
- Liberals – yes – because of **comparative advantage**

Free trade vs. protectionism

- Comparative advantage – **everybody specializes in a work which has the lowest opportunity costs for them**

Free trade vs. protectionism

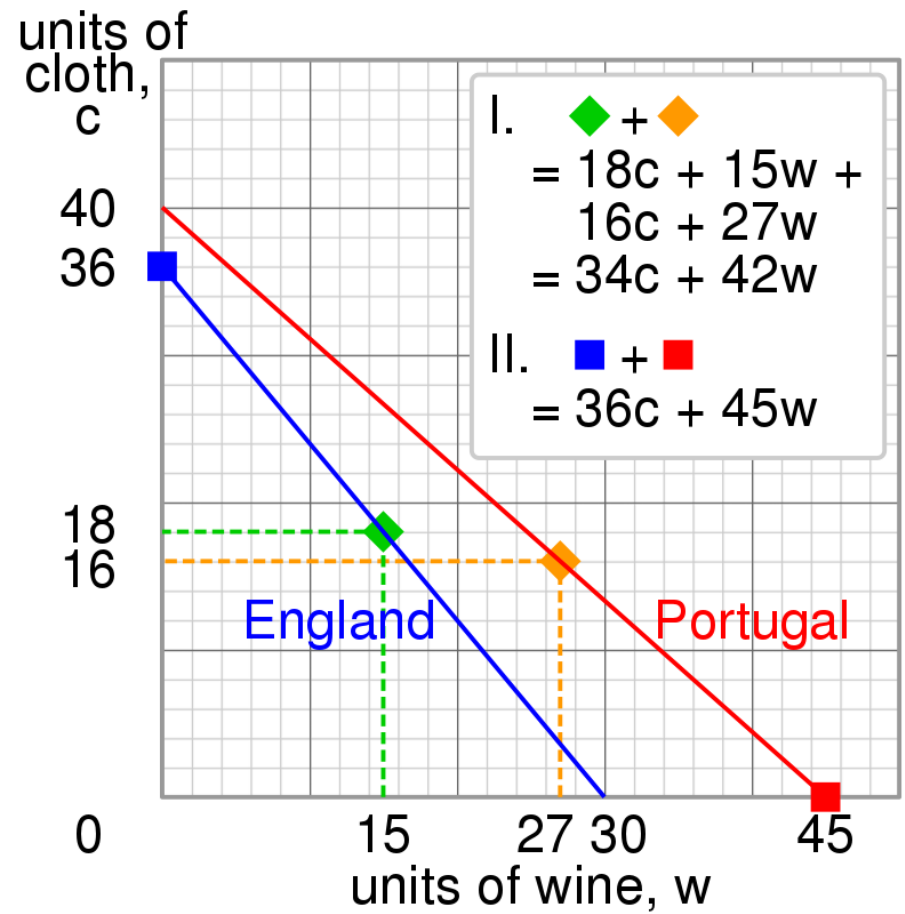
- Comparative advantage – **everybody specializes in a work which has the lowest opportunity costs for them**
- = the thing in which they are relatively best at compared to other activities

Free trade vs. protectionism

- Comparative advantage – **everybody specializes in a work which has the lowest opportunity costs for them**
- = the thing in which they are relatively best at compared to other activities
- > **specialization, division of labor** > maximization of production and consumption

Free trade vs. protectionism

- Comparative advantage – **everybody specializes in a work which has the lowest opportunity costs for them**
- = the thing in which they are relatively best at compared to other activities
- > **specialization, division of labor** > maximization of production and consumption
- **Trade as indirect production** – instead of wasting our potential producing say, textile, let's focus on something in which we are good and buy textiles 😊



Free trade vs. protectionism

- Meant to promote free trade
- Is free trade good?
- Liberals – yes – because of comparative advantage
- Protectionists – **no** – because some activities **have higher added value than others** and **its possible for countries to move up**

Free trade vs. protectionism

- Protectionists – **infant industry argument**

Free trade vs. protectionism

- Protectionists – **infant industry argument**
- In 1955, comparative advantage would push South Korea to focus on rice and import cars from the United States

Free trade vs. protectionism

- Protectionists – **infant industry argument**
- In 1955, comparative advantage would push South Korea to focus on rice and import cars from the United States
- This would **momentarily maximize Korean living standard**

Free trade vs. protectionism

- Protectionists – **infant industry argument**
- In 1955, comparative advantage would push South Korea to focus on rice and import cars from the United States
- This would **momentarily maximize Korean living standard**
- BUT cars are far more profitable than rice

Free trade vs. protectionism

- Protectionists – **infant industry argument**
- In 1955, comparative advantage would push South Korea to focus on rice and import cars from the United States
- This would **momentarily maximize Korean living standard**
- BUT cars are far more profitable than rice
- In order to catch up, **Korea must protect its markets from US imports**

Free trade vs. protectionism

- Protectionists – **infant industry argument**
- In 1955, comparative advantage would push South Korea to focus on rice and import cars from the United States
- This would **momentarily maximize Korean living standard**
- BUT cars are far more profitable than rice
- In order to catch up, **Korea must protect its markets from US imports**
- = temporary sacrifice, but in due time, Korea will become a competitive industrial economy > **far higher living standard than with rice**

Free trade vs. protectionism

- > **comparative advantages are not eternal**, a country can gain a comparative advantage that it did not have before

Free trade vs. protectionism

- > **comparative advantages are not eternal**, a country can gain a comparative advantage that it did not have before
- Once Korea is **competitive, it can move back to free trade**

Free trade vs. protectionism

- > **comparative advantages are not eternal**, a country can gain a comparative advantage that it did not have before
- Once Korea is **competitive, it can move back to free trade**
- = **protectionism as a transitional period** (x permanent autarky)

Free trade vs. protectionism

- > **comparative advantages are not eternal**, a country can gain a comparative advantage that it did not have before
- Once Korea is **competitive, it can move back to free trade**
- = **protectionism as a transitional period** (x permanent autarky)
- Ha Joon Chang – Bad Samaritans – countries use protectionism to become rich **and then preach free trade**

Free trade vs. protectionism

- > **comparative advantages are not eternal**, a country can gain a comparative advantage that it did not have before
- Once Korea is **competitive, it can move back to free trade**
- = **protectionism as a transitional period** (x permanent autarky)
- Ha Joon Chang – Bad Samaritans – countries use protectionism to become rich **and then preach free trade**
- - United States, Britain, even Korea...
- China?

Free trade vs. protectionism

- > WTO as a neoliberal iron cage preventing development
- Along with IMF and World Bank – „Unholy Trinity“

Free trade vs. protectionism

- Protectionist view on China – **successful case of protectionist development**

Free trade vs. protectionism

- Protectionist view on China – **successful case of protectionist development**
- The government **supported advanced technologies and industries which allowed China to grow** and outperform other developing countries

Free trade vs. protectionism

- Protectionist view on China – **successful case of protectionist development**
- The government **supported advanced technologies and industries which allowed China to grow** and outperform other developing countries
- **Caveat:** China is not protectionist in the traditional sense – **it has relatively open borders, but it subsidizes certain areas of its economy**

Free trade vs. protectionism

- Protectionist view on China – **successful case of protectionist development**
- The government **supported advanced technologies and industries which allowed China to grow** and outperform other developing countries
- **Caveat:** China is not protectionist in the traditional sense – **it has relatively open borders, but it subsidizes certain areas of its economy**
- Typical for East Asian states

Free trade vs. protectionism

- > China is successful, **because it rejected Western advice for free trade**

Free trade vs. protectionism

- > China is successful, **because it rejected Western advice for free trade**
- Marxist view – only a strong country could manage to withstand Western pressure for free trade

Free trade vs. protectionism

- > China is successful, **because it rejected Western advice for free trade**
- Marxist view – only a strong country could manage to withstand Western pressure for free trade
- - during the Cold War, protectionist growth was allowed to US allies like Korea and Taiwan, while other countries were forced into free trade and therefore stagnation and poverty

Free trade vs. protectionism

- Liberal reply: **Yes, developing infant industries is theoretically possible**

Free trade vs. protectionism

- Liberal reply: **Yes, developing infant industries is theoretically possible**
- **But it is much more likely that a country will fail in this strategy and waste valuable resources**

Free trade vs. protectionism

- China is **successful despite state interference in the economy**

Free trade vs. protectionism

- China is **successful despite state interference in the economy**
- It began to grow only after full central planning ceased

Free trade vs. protectionism

- China is **successful despite state interference in the economy**
- It began to grow only after full central planning ceased
- Its economy is actually **driven by entrepreneurs** whose work the state often has no appreciation for

Free trade vs. protectionism

- China is **successful despite state interference in the economy**
- It began to grow only after full central planning ceased
- Its economy is actually **driven by entrepreneurs** whose work the state often has no appreciation for
- China probably always had some talent for industry, it was only hidden – **comparative advantage was always there, we just could not see it**

The World Trade Organization

- *„Rules-based liberal international order“*

The World Trade Organization

- *„Rules-based liberal international order“*
- = vague phrase used by liberal IR scholars, rarely explained
- Meant to describe **the US-led, post-WWII international system**

The World Trade Organization

- *„Rules-based liberal international order“*
- = vague phrase used by liberal IR scholars, rarely explained
- Meant to describe **the US-led, post-WWII international system**
- WTO – **probably the most advanced part of this order**

The World Trade Organization

- *„Rules-based liberal international order“*
- = vague phrase used by liberal IR scholars, rarely explained
- Meant to describe **the US-led, post-WWII international system**
- WTO – **probably the most advanced part of this order**
- > establishes an elaborate legal regime regulating international trade as well as an **enforcement mechanism**

The World Trade Organization

- *„Rules-based liberal international order“*
- = vague phrase used by liberal IR scholars, rarely explained
- Meant to describe **the US-led, post-WWII international system**
- WTO – **probably the most advanced part of this order**
- > establishes an elaborate legal regime regulating international trade as well as an **enforcement mechanism**
- > **the only such régime in the world!** (x ICJ, ICC)

The World Trade Organization

- x IMF and World Bank – ad hoc policies, not **rules binding member states** in important areas of policy making

Brief history of the GATT/WTO

- **1947 – General Agreement on Tariffs and Trade (GATT)**

Brief history of the GATT/WTO

- **1947 – General Agreement on Tariffs and Trade (GATT)**
- Meant as a provisional measure before the creation of an International Trade Organization – partner organization of the UN

Brief history of the GATT/WTO

- **1947 – General Agreement on Tariffs and Trade (GATT)**
- Meant as a provisional measure before the creation of an International Trade Organization – partner organization of the UN
- US – willingness to liberalize trade – **extremely competitive industry looking for new markets**
- (x Alexander Hamilton, high tariffs since early 1800s!)

Brief history of the GATT/WTO

- **1947 – General Agreement on Tariffs and Trade (GATT)**
- Meant as a provisional measure before the creation of an International Trade Organization – partner organization of the UN
- US – willingness to liberalize trade – **extremely competitive industry looking for new markets**
- (x Alexander Hamilton, high tariffs since early 1800s!)
- **Multilateral approach** – supported by the UK and Commonwealth countries – to balance the huge unilateral power of the US

The GATT

- **Still active in the WTO!**
- **Continues to be the cornerstone of the WTO system!**

The GATT

- **1) Most Favored Nation (MFN)**

The GATT

- **1) Most Favored Nation (MFN)**
- **> If I decrease tariffs for one member state, I have to extend this to all member states**

The GATT

- **1) Most Favored Nation (MFN)**
- **> If I decrease tariffs for one member state, I have to extend this to all member states**
- Also applicable to quotas and other measures connected with crossing the border

The GATT

- **1) Most Favored Nation (MFN)**
- **> Non-discrimination between third countries**

The GATT

- **1) Most Favored Nation (MFN)**
- **> Non-discrimination between third countries**
- „Why is X allowed for Canada and not for us?“
- „Why are our exports subject to a harsher regulatory régime than Japan’s exports?“

The GATT

- 1) **Most Favored Nation (MFN)**
- Is an extremely **important concept of international economic law**, used in various agreements!
- The GATT is the most prominent instrument that uses it

The GATT

- **2) National Treatment**

The GATT

- **2) National Treatment**
- **Once a good has crossed the border, it will be treated no less favorably than domestically produced goods**

The GATT

- **2) National Treatment**
- **Once a good has crossed the border, it will be treated no less favorably than domestically produced goods**
- **> applies to taxes, quality standards, etc.**

The GATT

- **2) National Treatment**
- „Why is our wine not allowed into Spain’s market for health reasons when Spanish wine makers often create almost exactly the same product and this rule does not apply to them?“
- US vs. Thailand – menthol cigarettes

The GATT

- **2) National Treatment**
- „Why is our wine not allowed into Spain’s market for health reasons when Spanish wine makers often create almost exactly the same product and this rule does not apply to them?“
- US vs. Thailand – menthol cigarettes
- Similar disputes – European Court of Justice

The GATT

- **Most Favored Nation + National Treatment = Non-discrimination**

The GATT

- **Most Favored Nation + National Treatment = Non-discrimination**
- **A state can create whatever regulation it wants to, as long as it isn't discriminatory**

The GATT

- **The most basic principle is not free trade, but non-discrimination!**

The GATT

- **The most basic principle is not free trade, but non-discrimination!**
- Its not against the rules to have high tariffs or strict regulations!

The GATT

- **The most basic principle is not free trade, but non-discrimination!**
- Its not against the rules to have high tariffs or strict regulations!
- Liberal economists – it would be ideal if everybody unilaterally opted for total free trade, but that's not going to happen

The GATT

- **The most basic principle is not free trade, but non-discrimination!**
- Its not against the rules to have high tariffs or strict regulations!
- Liberal economists – it would be ideal if everybody unilaterally opted for total free trade, but that's not going to happen
- The GATT is useful to establish **some rules for fairness, it can than serve as a forum for negotiations**

The GATT

- Every country has a schedule of maximum tariffs = **tariff bindings**

The GATT

- Every country has a schedule of maximum tariffs = **tariff bindings**
- These are the subject of negotiations

The GATT

- Every country has a schedule of maximum tariffs = **tariff bindings**
- These are the subject of negotiations
- If a country wishes to, **it can apply a lower tariff** than the one it is bound not to exceed

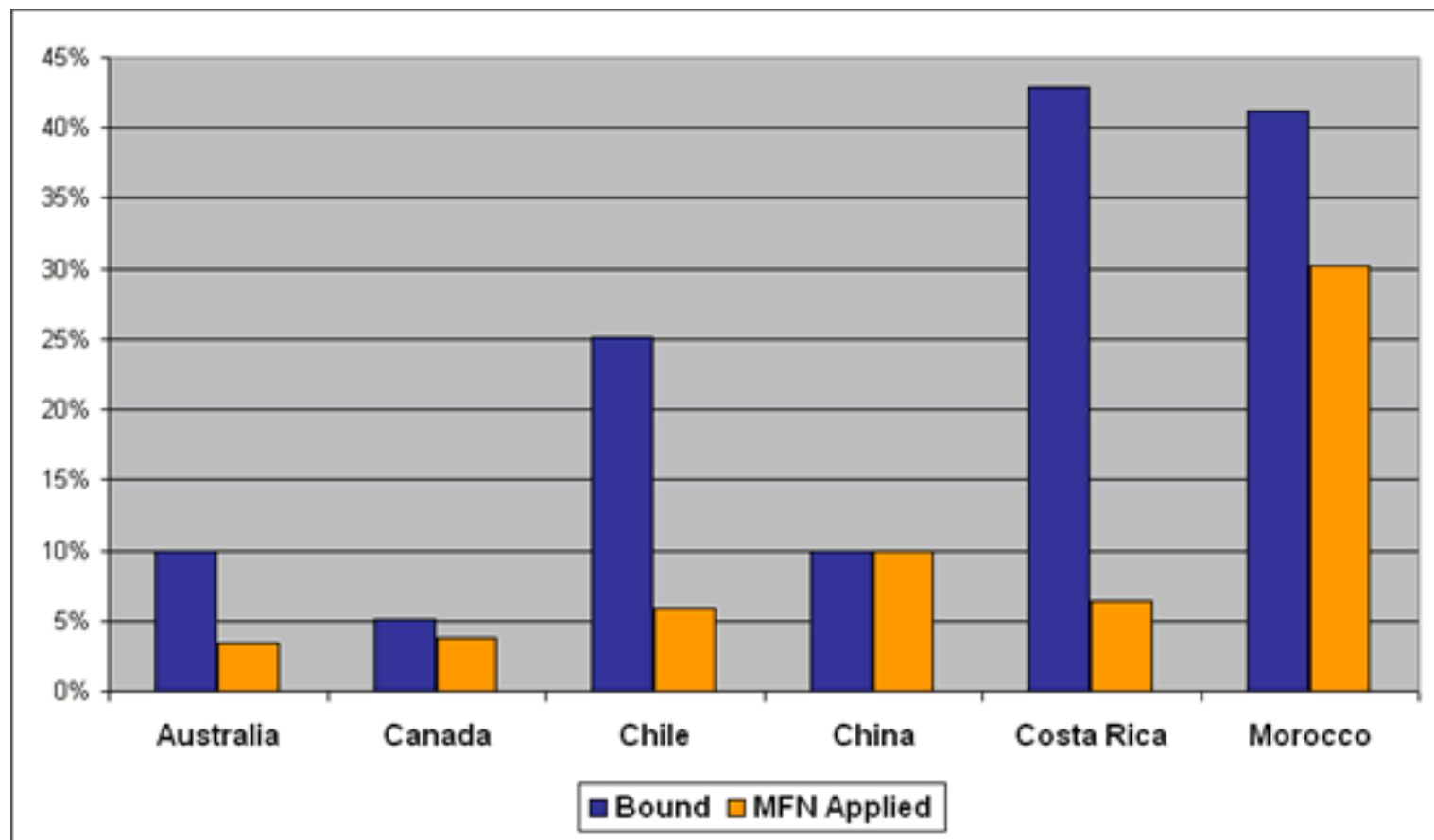
The GATT

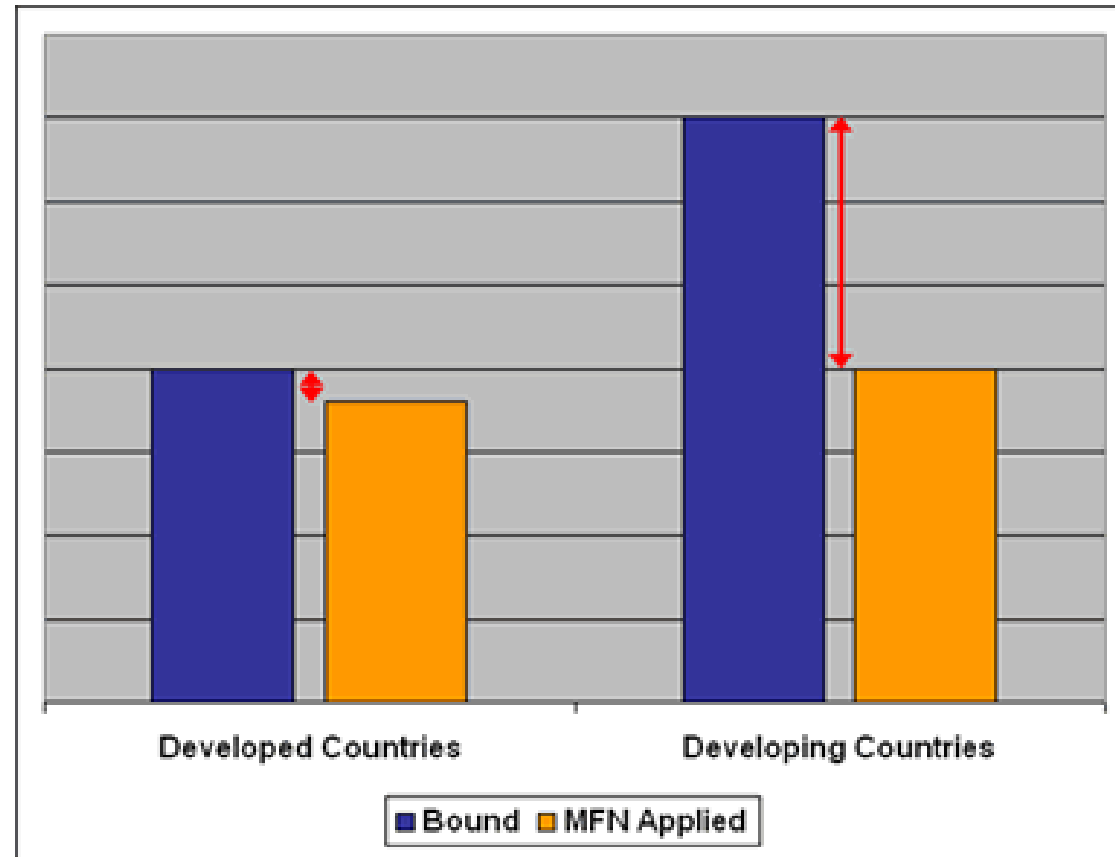
- Every country has a schedule of maximum tariffs = **tariff bindings**
- These are the subject of negotiations
- If a country wishes to, **it can apply a lower tariff** than the one it is bound not to exceed

- **Tariff bindings x applied tariffs**

The GATT

- Generally:
- **Rich countries** have almost all their tariff lines bound at a very low level (5 % or so)
- **Poor countries** have no bindings for many goods, or their tariffs are bound at a very high level (50 % or so)



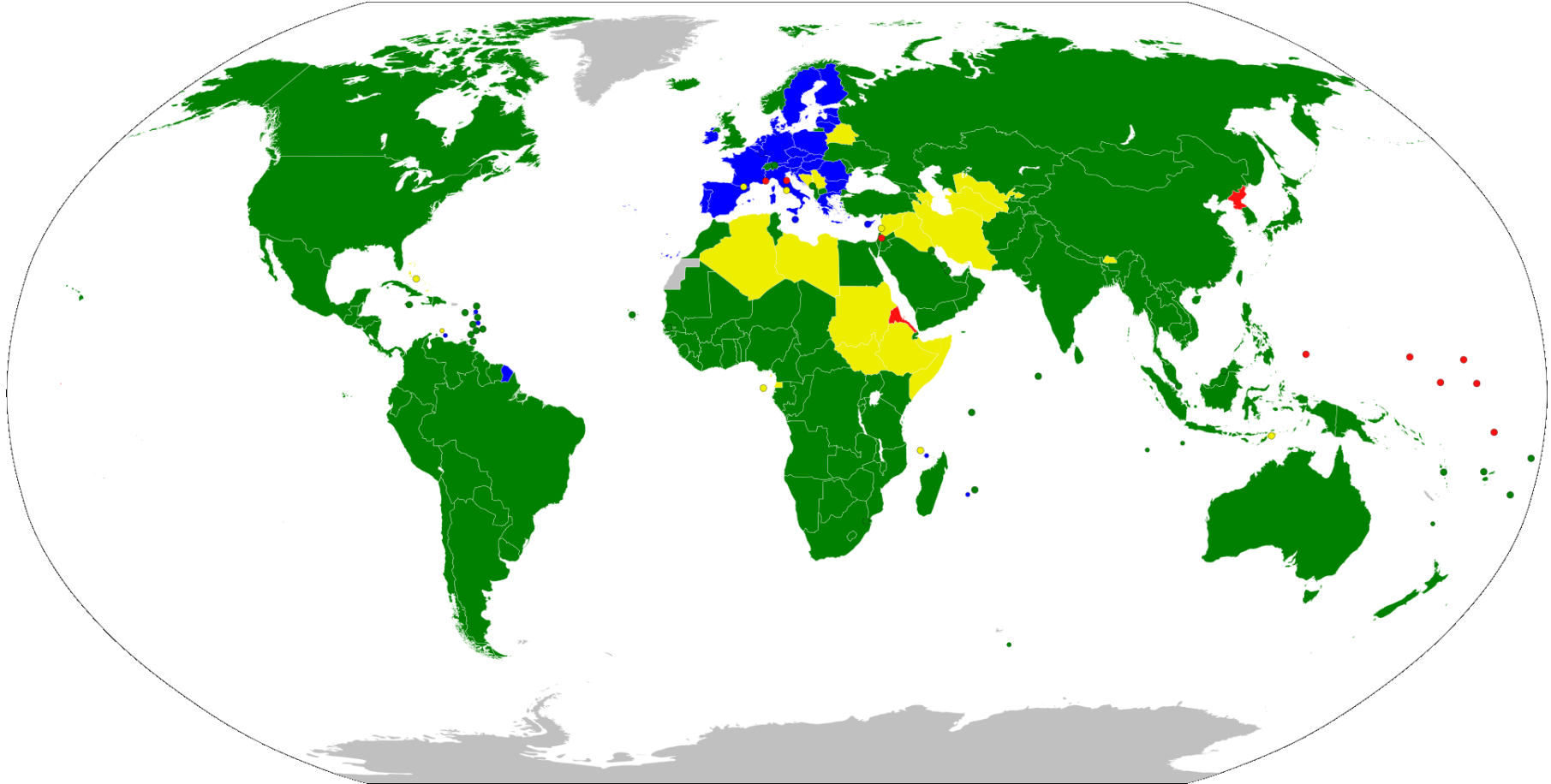


The GATT

- **Multilateral, international treaty**

The GATT

- **Multilateral, international treaty**
- Some exceptions for developing country, but **generally the same rules for everyone**



The GATT

- **Multilateral, international treaty**
- Some exceptions for developing country, but **generally the same rules for everyone**
- Criticized by protectionists – not enough room for poor countries for protectionism
- But also quite transparent

The GATT

- Does a company have a duty to follow the rules set in the GATT?

The GATT

- Does a company have a duty to follow the rules set in the GATT?
- **No!**

The GATT

- Does a company have a duty to follow the rules set in the GATT?
- **No!** It is not a subject of international law!

The GATT

- Does a company have a duty to follow the rules set in the GATT?
- **No!** It is not a subject of international law!
- **The GATT is binding for countries**, which then must create domestic regulations in line with their international obligations

The GATT

- Does a company have a duty to follow the rules set in the GATT?
- **No!** It is not a subject of international law!
- **The GATT is binding for countries**, which then must create domestic regulations in line with their international obligations
- > GATT and other WTO agreements are instruments **of international public law**
- They create **a regime which countries must respect**

The GATT

- Does a company have a duty to follow the rules set in the GATT?
- **No!** It is not a subject of international law!
- **The GATT is binding for countries**, which then must create domestic regulations in line with their international obligations
- > GATT and other WTO agreements are instruments **of international public law**
- They create a **regime which countries must respect**
- = Western idea of globalization

The GATT

- x Chinese-led initiatives – **Belt and Road, 17 + 1**
- = **ad hoc, one-off projects**
- BRI projects - often based on a **commercial contract between a country and a Chinese bank or an SOE**
- 17 + 1 – only a **network of bilateral relationships**
- **More flexible** – is that a good thing or a bad thing?

The GATT

- x Chinese-led initiatives – **Belt and Road, 17 + 1**
- = **ad hoc, one-off projects**
- BRI projects - often based on a **commercial contract between a country and a Chinese bank or an SOE**
- 17 + 1 – only a **network of bilateral relationships**
- **More flexible** – is that a good thing or a bad thing?

The GATT

- x Chinese-led initiatives – **Belt and Road, 17 + 1**
- = **ad hoc, one-off projects**

The GATT

- x Chinese-led initiatives – **Belt and Road, 17 + 1**
- = **ad hoc, one-off projects**
- BRI projects - often based on a **commercial contract between a country and a Chinese bank or an SOE**

The GATT

- x Chinese-led initiatives – **Belt and Road, 17 + 1**
- = **ad hoc, one-off projects**
- BRI projects - often based on a **commercial contract between a country and a Chinese bank or an SOE**
- 17 + 1 – only a **network of bilateral relationships**

The GATT

- x Chinese-led initiatives – **Belt and Road, 17 + 1**
- = **ad hoc, one-off projects**
- BRI projects - often based on a **commercial contract between a country and a Chinese bank or an SOE**
- 17 + 1 – only a **network of bilateral relationships**

- **More flexible** – is that a good thing or a bad thing?

Brief history of the GATT/WTO

- US Senate – rejected to join ITO
- > GATT remained as a „**provisional arrangement for 50 years**“ (1947-1994)

Brief history of the GATT/WTO

- US Senate – rejected to join ITO
- > GATT remained as a „**provisional arrangement for 50 years**“ (1947-1994)
- **Originally – only included Western industrialized states + Latin America**
- ROC – joined, later withdrew
- PRC, USSR and satellites – stayed out

Brief history of the GATT/WTO

- 1950s – mostly a mechanism for trade between US and Western Europe
- - US willingness to provide unilateral concessions - **why?**

Brief history of the GATT/WTO

- 1950s – mostly a mechanism for trade between US and Western Europe
- - US willingness to provide unilateral concessions - **why?**
- So that allies can recover their strength and be more useful against the USSR
- Circa 1960 > **US became more concerned with its economic interest**
> **a tougher bargaining position**

Brief history of the GATT/WTO

- **1960s – Kennedy Round**

Brief history of the GATT/WTO

- **1960s – Kennedy Round**
- **1970s – Tokyo Round**

Brief history of the GATT/WTO

- **1960s – Kennedy Round**
- **1970s – Tokyo Round**
- **1980s – Uruguay Round**

Brief history of the GATT/WTO

- **1960s – Kennedy Round**
- **1970s – Tokyo Round**
- **1980s – Uruguay Round**
- **Together – tariffs on manufacturing products almost eliminated in rich countries (from 30 % or so to circa 5%)**

Brief history of the GATT/WTO

- **1960s – Kennedy Round**
- **1970s – Tokyo Round**
- **1980s – Uruguay Round**
- **Together – tariffs on manufacturing products almost eliminated in rich countries (from 30 % or so to circa 5%)**

- **Tariffs became irrelevant among developed countries!**

Brief history of the GATT/WTO

- But – a host of issues connected to trade proved far more difficult to resolve:

Brief history of the GATT/WTO

- But – a host of issues connected to trade proved far more difficult to resolve:
- Agriculture
- Subsidies
- Dumping
- Product standards
- Intellectual property
- Trade in services
- Foreign investment

Brief history of the GATT/WTO

- **Dumping, subsidies**
- - most important **exceptions from the GATT regime**

Brief history of the GATT/WTO

- **Dumping, subsidies**
- - most important **exceptions from the GATT regime**
- = if I think country A is doing dumping or subsidizing its exports, I can levy special duties on them
- > „**new protectionism**“

Brief history of the GATT/WTO

- Tokyo and Uruguay – **many additional agreements complementing the GATT were signed** (Agreement on Agriculture etc.)

Brief history of the GATT/WTO

- Tokyo and Uruguay – **many additional agreements complementing the GATT were signed** (Agreement on Agriculture etc.)
- New agreements were created for **services and intellectual property** (= issues that are not covered by the GATT at all)

Brief history of the GATT/WTO

- Tokyo and Uruguay – **many additional agreements complementing the GATT were signed** (Agreement on Agriculture etc.)
- New agreements were created for **services and intellectual property** (= issues that are not covered by the GATT at all)
- WTO – created at the conclusion of the Uruguay round as an **institutional umbrella to cover all the agreements**

WORLD TRADE
ORGANIZATION





The World Trade Organization

- WTO – created at the conclusion of the Uruguay round as an **institutional umbrella to cover all the agreements**

The World Trade Organization

- WTO – created at the conclusion of the Uruguay round as an **institutional umbrella to cover all the agreements**
- Two purposes:
- 1) **Safeguard and enforce existing agreements**

The World Trade Organization

- WTO – created at the conclusion of the Uruguay round as an **institutional umbrella to cover all the agreements**
- Two purposes:
 - 1) **Safeguard and enforce existing agreements**
 - 2) **Serve as a forum for future negotiations**

The World Trade Organization

- WTO – created at the conclusion of the Uruguay round as an **institutional umbrella to cover all the agreements**
- Two purposes:
 - 1) **Safeguard and enforce existing agreements**
 - 2) **Serve as a forum for future negotiations**
- - point 2 has been largely a failure after 1995

The World Trade Organization

- Agreements – „**three pillars**“

The World Trade Organization

- Agreements – „three pillars“
- 1) **GATT + additional texts – trade in goods**

The World Trade Organization

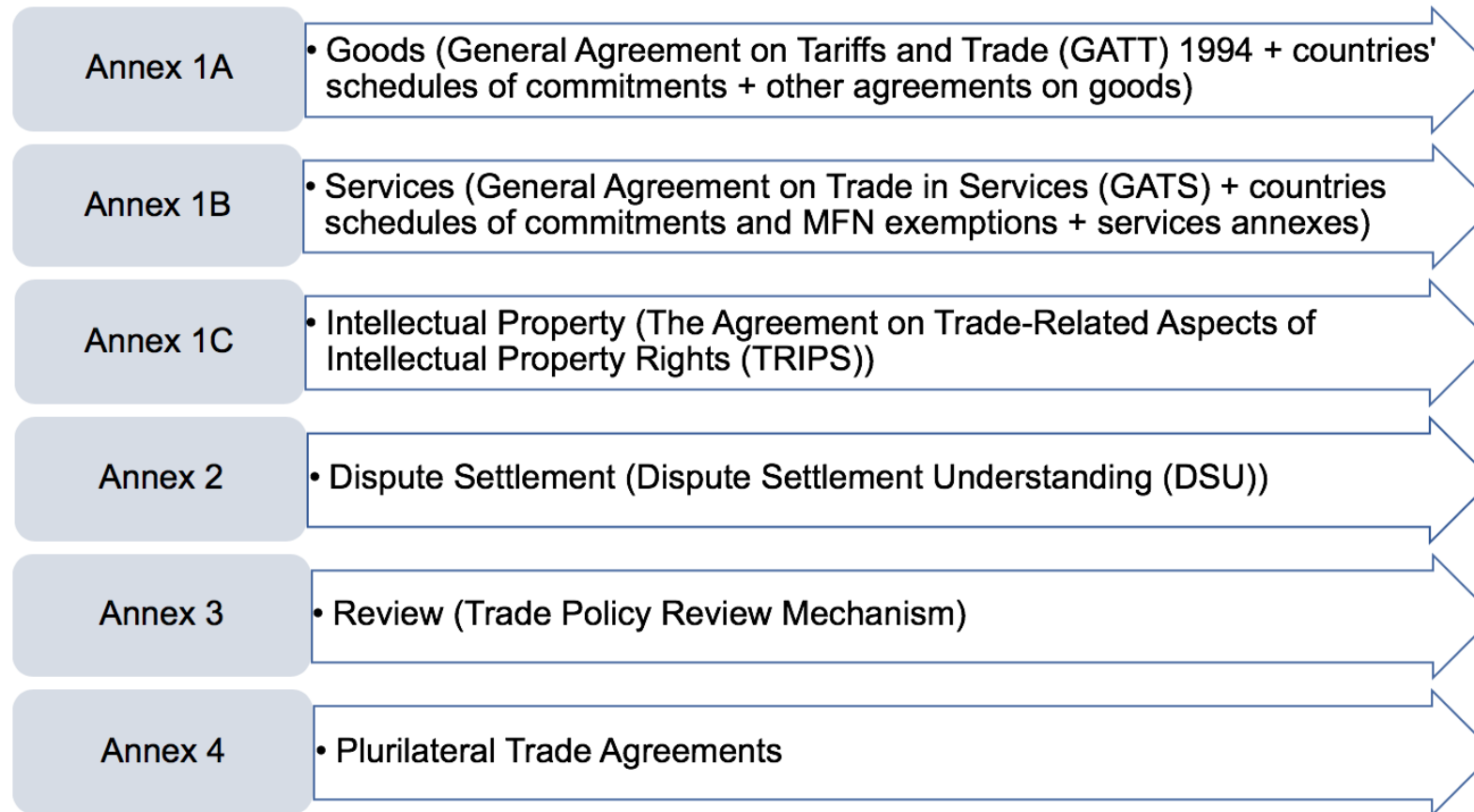
- Agreements – „three pillars“
- 1) **GATT + additional texts – trade in goods**
- 2) **GATS – trade in services**
- = banks and funds, telecommunications operators, law offices, tax advisors, tourism, transport...

The World Trade Organization

- Agreements – „three pillars“
- 1) **GATT + additional texts – trade in goods**
- 2) **GATS – trade in services**
 - = banks and funds, telecommunications operators, law offices, tax advisors, tourism, transport...
- 3) **TRIPS - intellectual property**

The World Trade Organization

- **3) TRIPS - intellectual property**
 - – automatic, free of charge **copyright** for **artistic and scientific works**
 - – paid **patents, trademarks, industrial designs** etc. **for businesses**



The World Trade Organization

- GATT – still the cornerstone of the system

The World Trade Organization

- GATT – still the cornerstone of the system
- GATS – **weak and inefficient instrument**, half-forgotten today

The World Trade Organization

- GATT – still the cornerstone of the system
- GATS – **weak and inefficient instrument**, half-forgotten today
- TRIPS – an important addition, **beneficial mostly for rich countries**

The World Trade Organization

- GATT – still the cornerstone of the system
- GATS – **weak and inefficient instrument**, half-forgotten today
- TRIPS – an important addition, **beneficial mostly for rich countries**

- **Investment – not covered by any agreement!**
- > The world still lacks a multilateral régime for investment

The World Trade Organization

- **Dispute Settlement mechanism** – two-tier system with an appeal
- **Final decisions – Appellate Body** – 7 arbitrators

The World Trade Organization

- **Dispute Settlement mechanism** – two-tier system with an appeal
- **Final decisions – Appellate Body** – 7 arbitrators
- **Unique feature after 1995 – decisions respected even by great powers**

The World Trade Organization

- **Dispute Settlement mechanism** – two-tier system with an appeal
- **Final decisions – Appellate Body** – 7 arbitrators

- **Unique feature after 1995 – decisions respected even by great powers**
- First major case – US vs. Venezuela – US lost and complied with the decision!

The World Trade Organization

- **Dispute Settlement mechanism** – two-tier system with an appeal
- **Final decisions – Appellate Body** – 7 arbitrators

- **Unique feature after 1995 – decisions respected even by great powers**
- First major case – US vs. Venezuela – US lost and complied with the decision!
- *?Crowning jewel of the US unilateral moment?*

China's entry into the WTO

- Most important – stance of the United States

China's entry into the WTO

- Most important – stance of the United States
- 1980 – **China granted MFN status by US Congress**

China's entry into the WTO

- Most important – stance of the United States
- 1980 – **China granted MFN status by US Congress**
- **1986 – China petitioned to join the GATT**

China's entry into the WTO

- Most important – stance of the United States
- 1980 – **China granted MFN status by US Congress**
- **1986 – China petitioned to join the GATT**
- Long and arduous negotiations – **only concluded in 2001**

China's entry into the WTO

- Main principle – **when a country becomes a member, it is hard to force them to adopt changes**

China's entry into the WTO

- Main principle – **when a country becomes a member, it is hard to force them to adopt changes**
- Because, for example, **there is no duty of member states to decrease tariffs**, as we've established!

China's entry into the WTO

- Main principle – **when a country becomes a member, it is hard to force them to adopt changes**
- Because, for example, **there is no duty of member states to decrease tariffs**, as we've established!
- **Even fewer rules for SOEs and industrial policy!**

China's entry into the WTO

- > if you want a country to reform its economy, **you must pressure them before they enter**
- Entry must be approved by every single member

China's entry into the WTO

- > if you want a country to reform its economy, **you must pressure them before they enter**
- Entry must be approved by every single member
- **Demanded reforms often reach beyond the scope of WTO agreements!**
- > „X is not compulsory even for members, but hey, if you don't do X, we will not let you in“

China's entry into the WTO

- China forced to – **open its services sector to FDI** (at least partially)

China's entry into the WTO

- China forced to – **open its services sector to FDI** (at least partially)
- **Bound its tariffs below 10 %, often at 5 %**

China's entry into the WTO

- China forced to – **open its services sector to FDI** (at least partially)
- **Bound its tariffs below 10 %, often at 5 %**
- x high tariffs in most developing countries

China's entry into the WTO

- China forced to – **open its services sector to FDI** (at least **partially**)
- **Bound its tariffs below 10 %, often at 5 %**
- x high tariffs in most developing countries
- **Accept its status as a „non-market economy“ in the US and EU**

China's status of a non-market economy

- **WTO law does not stipulate what a market economy is**

China's status of a non-market economy

- **WTO law does not stipulate what a market economy is**
- **Internal legislations of some countries – it is easier to apply anti-dumping and anti-subsidy levies against countries perceived as non-market**

Dumping

- Dumping = if the export price is lower than the price at the domestic market, or below production costs

Dumping

- Dumping = if the export price is lower than the price at the domestic market, or below production costs
- Reality – **this is a normal economic practice**

Dumping

- Dumping = if the export price is lower than the price at the domestic market, or below production costs
- Reality – **this is a normal economic practice**
- But – **this exception is often misused**

Dumping

- Dumping = if the export price is lower than the price at the domestic market, or below production costs
- Reality – **this is a normal economic practice**
- But – **this exception is often misused**
- „This product is too cheap. What would the real price be? Let’s use the US/EU price and **count tariffs for China from that number!**“

Dumping

- Dumping = if the export price is lower than the price at the domestic market, or below production costs
- Reality – **this is a normal economic practice**
- But – **this exception is often misused**
- „This product is too cheap. What would the real price be? Let’s use the US/EU price and **count tariffs for China from that number!**“
- > **often leads to applied tariffs over 100 %!**

Subsidies

- **State financial support for production**

Subsidies

- **State financial support for production**
- **WTO – illegal if they are used to support export** > importing state can use „countervailing duties“

Subsidies

- **State financial support for production**
- **WTO – illegal if they are used to support export** > importing state can use „countervailing duties“
- **Resulting duties are less extreme (20 percent or so)**

China's status of a non-market economy

- **WTO law does not stipulate what a market economy is**
- **Internal legislations of some countries – it is easier to apply anti-dumping and anti-subsidy levies against countries perceived as non-market**

China's status of a non-market economy

- WTO law does not stipulate what a market economy is
- Internal legislations of some countries – it is easier to apply anti-dumping and anti-subsidy levies against countries perceived as non-market
- Because **we assume their prices do not come from a market process**

China's status of a non-market economy

- **This status was to continue for 15 years – until December 2016**

China's status of a non-market economy

- **This status was to continue for 15 years – until December 2016**
- **But the EU and US did not change their stance**

China's status of a non-market economy

- **China is the most common target of anti-dumping and anti-subsidy measures**

China's status of a non-market economy

- **China is the most common target of anti-dumping and anti-subsidy measures**
- **Even from developing countries**

China's entry into the WTO

- China's status as a non-market economy was seen as a **huge source of contention**

China's entry into the WTO

- China's status as a non-market economy was seen as a **huge source of contention**
- Later overshadowed by the US-Chinese trade war

China's entry into the WTO

- Is this fair?
- Often not

China's entry into the WTO

- Is this fair?
- Often not
- But at the same time, **China is not a normal market economy**

China's entry into the WTO

- Is this fair?
- Often not
- But at the same time, **China is not a normal market economy**
- - it does have many subsidies and opaque relations between government and business etc.

China's entry into the WTO

- Opportunity **to carry out unpopular reforms** and go against vested interests

China in the WTO

- A silent role

China in the WTO

- A silent role
- **Not an advocate for developing country interests**
- x India, Brazil

China in the WTO

- A silent role
- **Not an advocate for developing country interests**
- x India, Brazil
- India – typical Global South protectionist
- **China's own trade policy is more similar to developed countries**

China in the WTO

- Careful **observer** of litigations > extensive knowledge of WTO case law

China in the WTO

- Intellectual property – **China sometimes violates the TRIPS, but it does not challenge it in principle**

China in the WTO

- Intellectual property – **China sometimes violates the TRIPS, but it does not challenge it in principle**
- Overtime, as China's own stockpile of intellectual property increases, it moves into a more pro-TRIPS position

China in the WTO

- **China's position on almost every issue is like this**

China in the WTO

- **China's position on almost every issue is like this**
- **– grounded in self-interest, not any internally consistent idea of how things should look like**

China in the WTO

- **China's position on almost every issue is like this**
- – **grounded in self-interest, not any internally consistent idea of how things should look like**
- > often leads do **contradictory positions** across issues

China in the WTO

- **China's position on almost every issue is like this**
- – **grounded in self-interest, not any internally consistent idea of how things should look like**
- > often leads to **contradictory positions** across issues
- Rule of thumb – **China supports liberalization in areas in which it is itself liberal, opposes it in areas in which it is statist**

China in the WTO

- **Support for traditional liberalization** (cutting of tariffs and other on-the-border issues)

China in the WTO

- **Support for traditional liberalization** (cutting of tariffs and other on-the-border issues)
- **Opposition to „behind the border issues“** – rules for **SOEs, or industrial policy**, or competition, or treatment of foreign investors

China in the WTO

- **Support for traditional liberalization** (cutting of tariffs and other on-the-border issues)
- **Opposition to „behind the border issues“** – rules for **SOEs, or industrial policy**, or competition, or treatment of foreign investors
- Here, China is interventionist and does not want the WTO to meddle in its affairs

China in the WTO

- Together: „ Please open up your markets for products of our government-backed national champions“ 😊

The West's approach to China

- 1989 – US – talks about sanctions after the Tiananmen massacre – not implemented
- – **trade and globalization will democratize China** 😊

The West's approach to China

- 1989 – US – talks about sanctions after the Tiananmen massacre – not implemented
- – **trade and globalization will democratize China** 😊
- 1990s – Fukuyamism + **China is not really a competitor**

The West's approach to China

- 1989 – US – talks about sanctions after the Tiananmen massacre – not implemented
- – **trade and globalization will democratize China** 😊
- 1990s – Fukuyamism + **China is not really a competitor**
- Early 2000s – greatest fear – **imports of cheap Chinese textiles!**

The West's approach to China

- 1989 – US – talks about sanctions after the Tiananmen massacre – not implemented
- – **trade and globalization will democratize China** 😊
- 1990s – Fukuyamism + **China is not really a competitor**
- Early 2000s – greatest fear – **imports of cheap Chinese textiles!**
- Around 2010 – **more anxiety over lost jobs**

The West's approach to China

- 1989 – US – talks about sanctions after the Tiananmen massacre – not implemented
- – **trade and globalization will democratize China** 😊
- 1990s – Fukuyamism + **China is not really a competitor**
- Early 2000s – greatest fear – **imports of cheap Chinese textiles!**
- Around 2010 – **more anxiety over lost jobs**
- By 2020 – **tangible fear of China's technological ambitions**

The West's approach to China

- > the West massively underestimated China's capabilities

The West's approach to China

- > the West massively underestimated China's capabilities
- And overestimated the attractiveness of its own social model

The West's approach to China

- In the WTO area – **how to persuade China to become a more free market economy?**

The West's approach to China

- In the WTO area – **how to persuade China to become a more free market economy?**
- This is hard since China is already a WTO member!

The West's approach to China

- In the WTO area – **how to persuade China to become a more free market economy?**
- This is hard since China is already a WTO member!
- Obama administration – **TPP – create a US-led Pacific trading block and then wait until China joins and accepts all the rules**

The West's approach to China

- In the WTO area – **how to persuade China to become a more free market economy?**
- This is hard since China is already a WTO member!
- Obama administration – **TPP – create a US-led Pacific trading block and then wait until China joins and accepts all the rules**
- If China does not join, at least the surrounding countries will be brought to the US orbit

The West's approach to China

- **Trump administration – impose tariffs, then use them as leverage**

The West's approach to China

- **Trump administration – impose tariffs, then use them as leverage**
- If you don't do much protectionism, you don't have anything to promise in trade negotiations

The West's approach to China

- Also Trump – attack on the WTO – „It is biased in favor of China“

The West's approach to China

- The **WTO** often ruled against US anti-dumping measures on China

The West's approach to China

- The **WTO often ruled against US anti-dumping measures on China**
- – because it has strict rules for it + **China is not really breaking any rules**

The West's approach to China

- The **WTO** often ruled against US anti-dumping measures on China
- – because it has strict rules for it + **China is not really breaking any rules**
- Because **there are no rules against China favorite policies!**

The West's approach to China

- Naughton – China's industrial policies **are against „unwritten“ rules of international economic conduct**

The West's approach to China

- Naughton – China's industrial policies **are against „unwritten“ rules of international economic conduct**
- = Policies such as Made in China 2025 are not outlawed by WTO law!
- = everybody knows it is provocative and confrontational, but it's not banned 😊

The West's approach to China

- Also Trump – attack on the WTO – „It is biased in favor of China“
- US – blocked the nomination of new judges into the Appellate body,
until the body became unable to make decisions

The West's approach to China

- Also Trump – attack on the WTO – „It is biased in favor of China“
- US – blocked the nomination of new judges into the Appellate body,
until the body became unable to make decisions
- > the US castrated the organization that they themselves created
- Biden – **still refuses to allow nomination** of new judges!

The West's approach to China

- Two possible interpretations
- (Both see the WTO as a relict of a short era of neoliberalism and US hegemony)

The West's approach to China

- Two possible interpretations
- (Both see the WTO as a relict of a short era of neoliberalism and US hegemony)
- 1) The West was naive, now it must embrace a more realistic approach
- 2) Prove of Western hypocrisy – after decades of trying to force developing countries to accept free trade, we ourselves have embraced protectionism as soon as a challenger appeared