

China in the World Trade Organization

China in the World Economy, 2022

Questions from last time

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

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- 2) What are investment screenings?
- 3) What is the name of China’s biggest semiconductor producer?

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- 2) What are investment screenings?
- 3) What is the name of China’s biggest semiconductor producer?
- 4) 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?

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- 5) When did China start to re-introduce nationwide industrial policies?
- 6) How did the 2008 Financial crisis influence Chinese thinking about economic policy?
- 7) How would a liberal economist criticize China's industrial policies?

New developments

New developments

how it started



how it's going



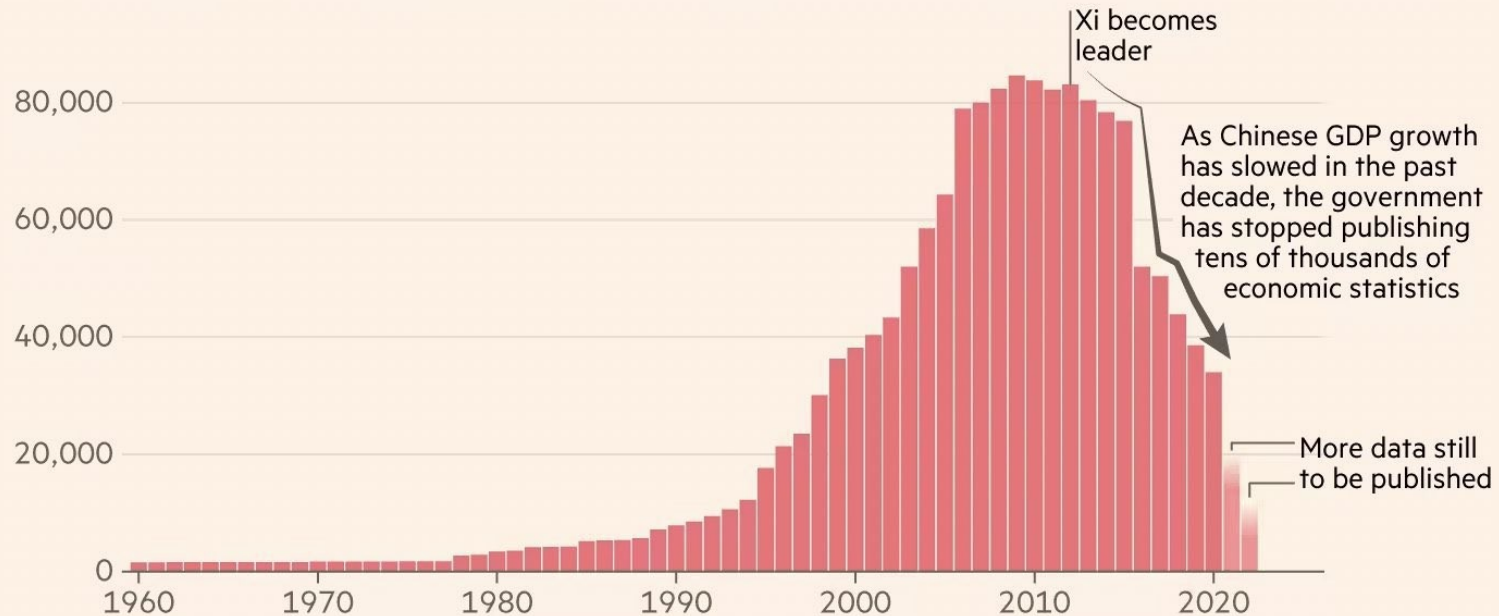
New developments



New developments

China is becoming much less transparent about its economic performance, quietly discontinuing thousands of statistical series

Annual number of economic indicators made available by China's National Bureau of Statistics

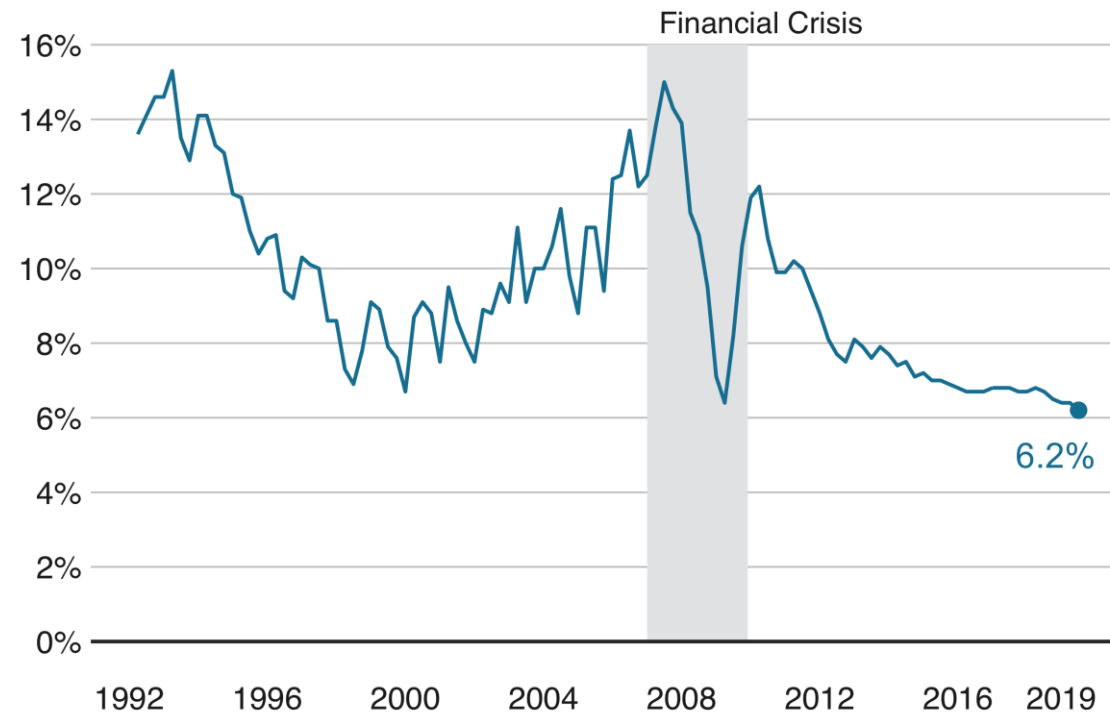


Source: FT analysis of CEIC; Chinese National Bureau of Statistics
FT graphic: John Burn-Murdoch / @jburnmurdoch
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New developments

Chinese economic growth slows

Year-on-Year GDP has fallen to its lowest since 1992



Source: China's National Bureau of Statistics

BBC

New developments

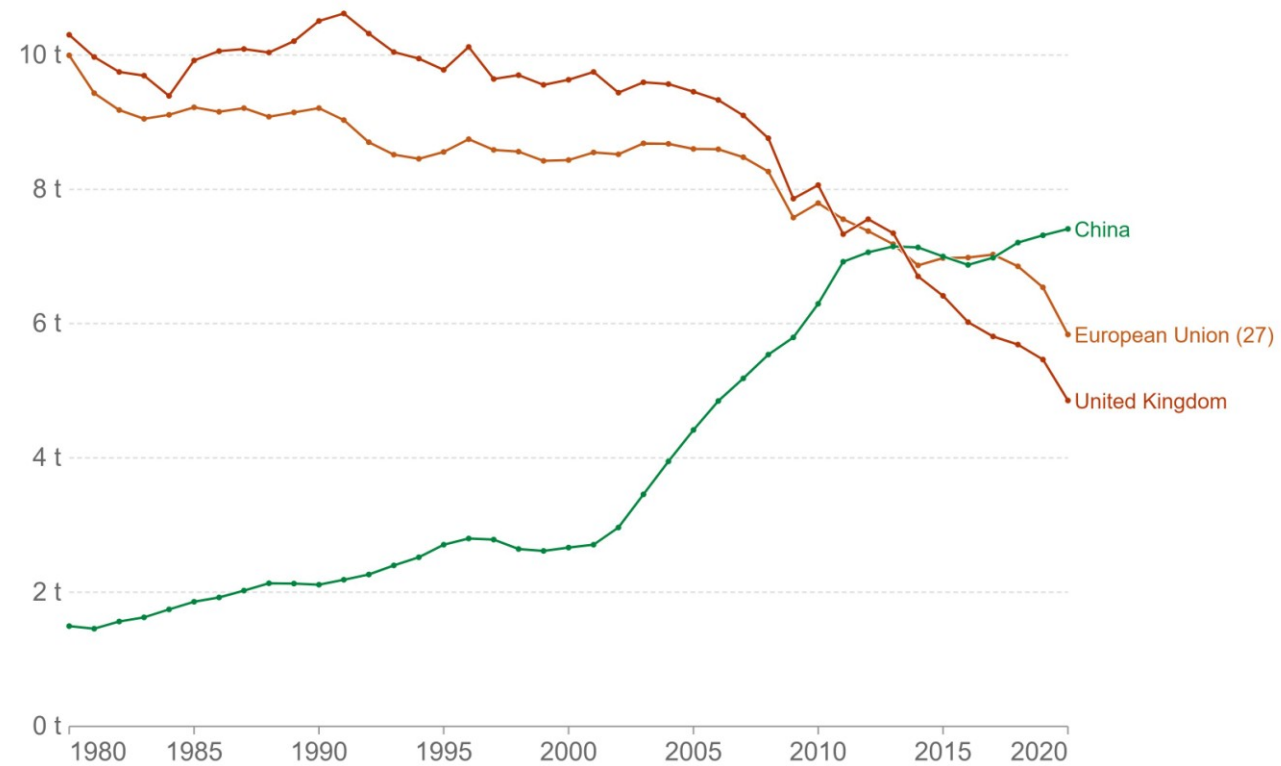


New developments

Per capita CO₂ emissions

Carbon dioxide (CO₂) emissions from fossil fuels and industry. Land use change is not included.

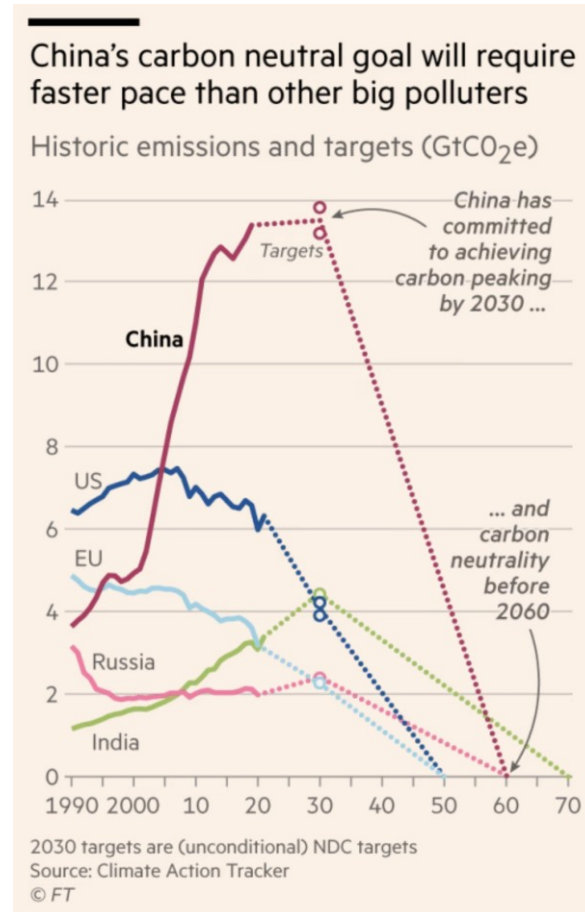
Our World
in Data



Source: Our World in Data based on the Global Carbon Project

OurWorldInData.org/co2-and-other-greenhouse-gas-emissions/ • CC BY

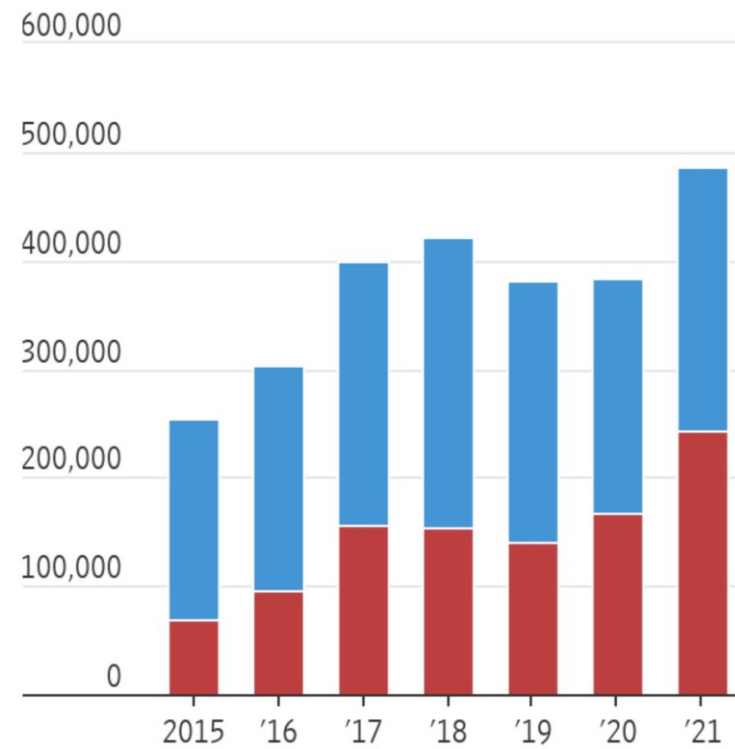
New developments



New developments

Industrial-robot installations

■ China ■ Rest of world

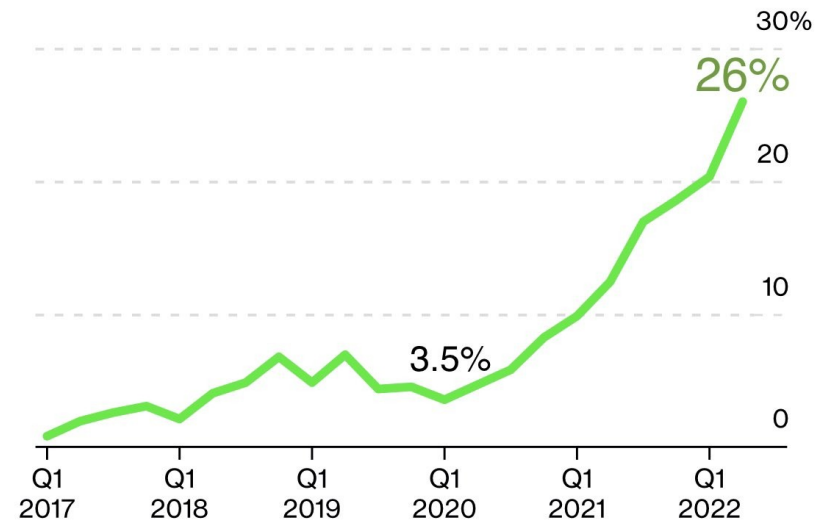


Source: International Federation of Robotics

New developments

Electric Vehicles on the Rise

Plug-in share of total passenger vehicle sales in China



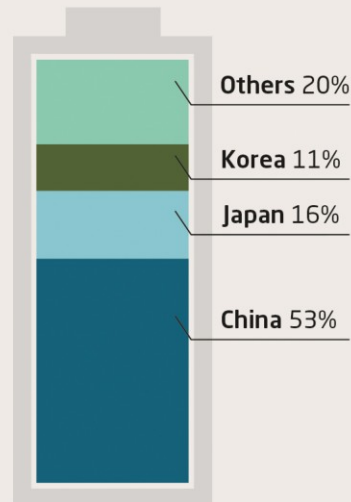
Source: BloombergNEF

Note: Includes battery-electric and plug-in hybrid passenger vehicle sales

New developments

The global EV battery market is dominated by Chinese companies

Seven out of the global top ten battery manufacturers are Chinese



	Company	Global Market Share, 2017 (%)*	Country
1	Contemporary Amperex Technology (CATL)	19	China
2	Panasonic	16	Japan
3	Build Your Dreams (BYD)	12	China
4	OptimumNano	9	China
5	LG Chem	7	Korea
6	Guoxuan High-Tech	5	China
7	Samsung SDI	4	Korea
8	Beijing National Battery Technology	3	China
9	BAK	3	China
10	Funeng Technology**	2	China
	Others	20	

* Based on EV lithium-ion battery shipments (GWh)

** US-invested

Sources: China EV 100.

Today

- Discussion about the benefits of free trade

Today

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- The World Trade Organization and its rules

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- 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

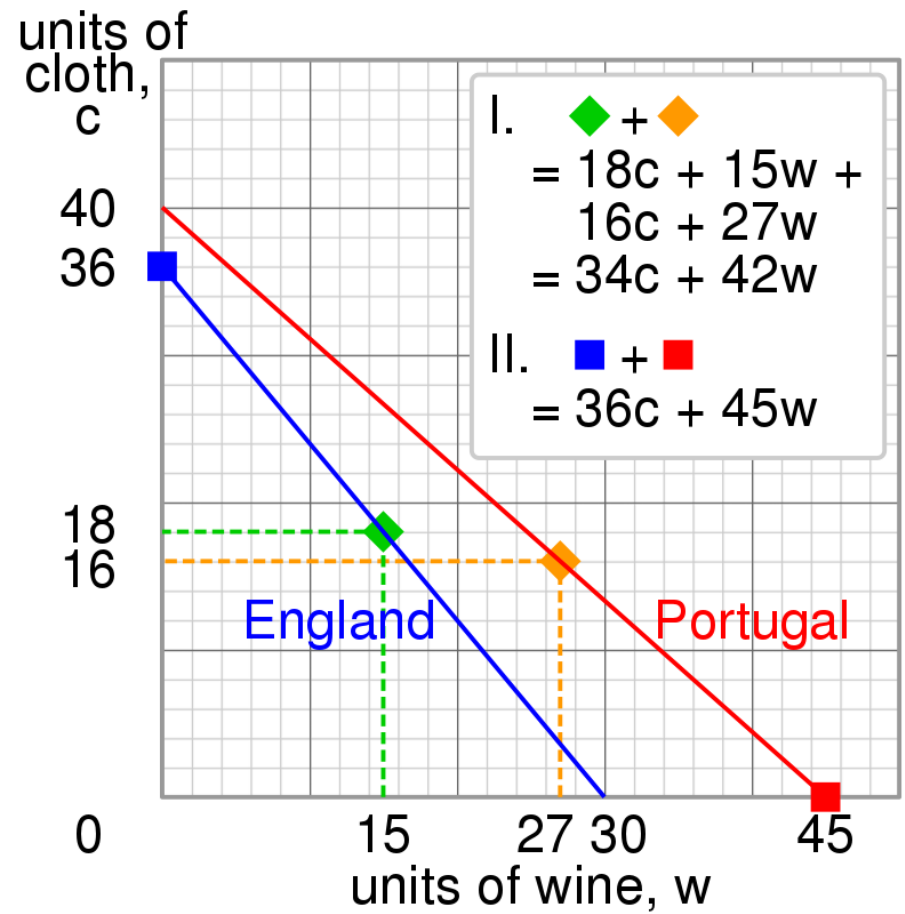
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- **Trade as indirect production** – instead of wasting our potential producing say, textile, let's focus on something in which we are good and buy textiles 😊



Free trade vs. protectionism

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- 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**

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- 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**

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- - 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

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- **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

- Marxist view – only a strong country with a strong state leadership could manage to withstand Western pressure for free trade

Free trade vs. protectionism

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- - 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

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- **But it is much more likely that a country will fail in this strategy and waste valuable resources**

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- 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

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- 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

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- **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

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- Also applicable to quotas and other measures connected with crossing the border

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- „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

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- **> applies to taxes, quality standards, etc.**

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- US vs. Thailand – menthol cigarettes

The GATT

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- US vs. Thailand – menthol cigarettes
- Similar disputes – European Court of Justice

The GATT

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

The GATT

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- **A state can create whatever regulation it wants to, as long as it isn't discriminatory**

The GATT

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- The GATT is useful to establish **some rules for fairness, it can than serve as a forum for negotiations**

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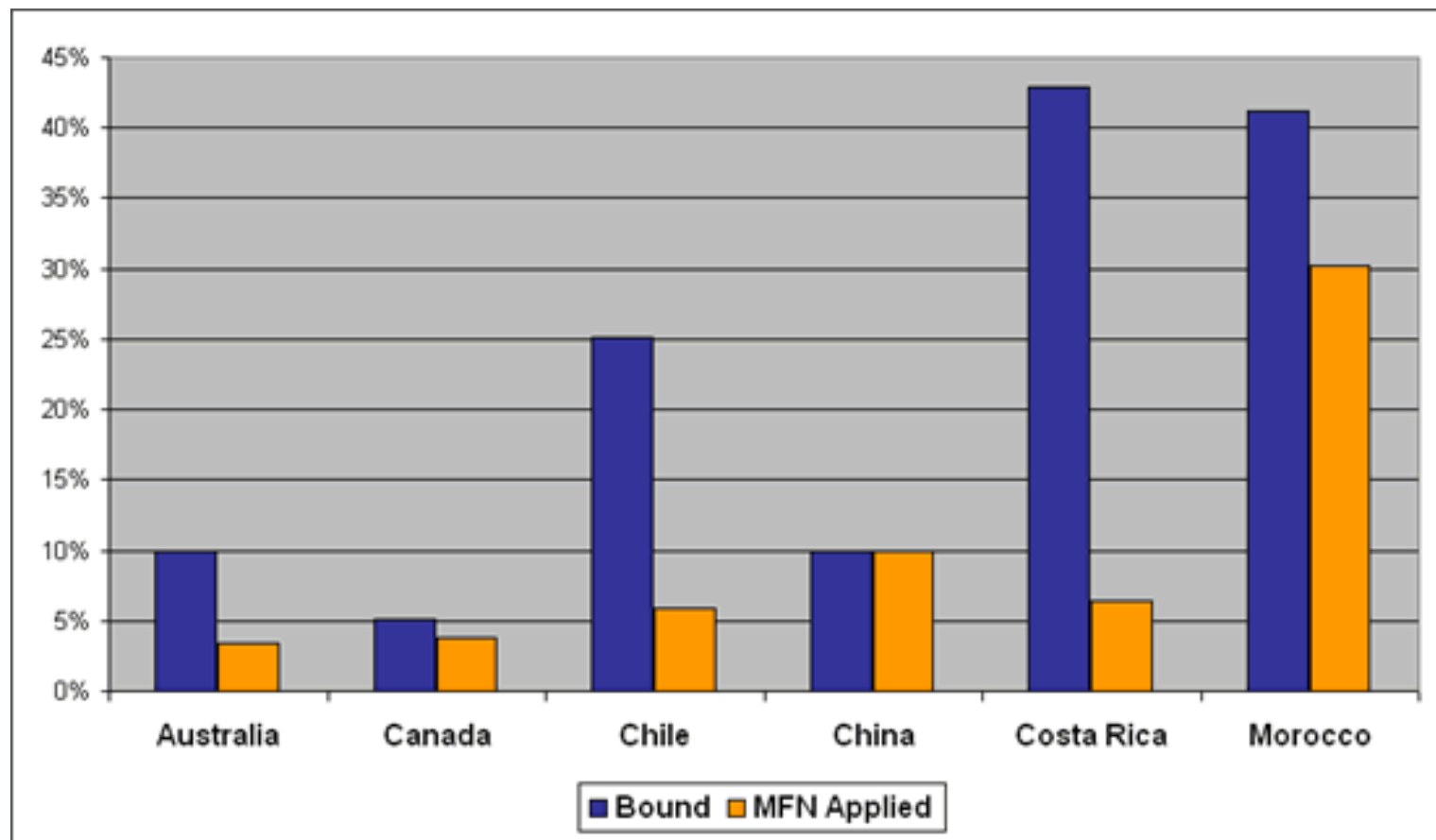
The GATT

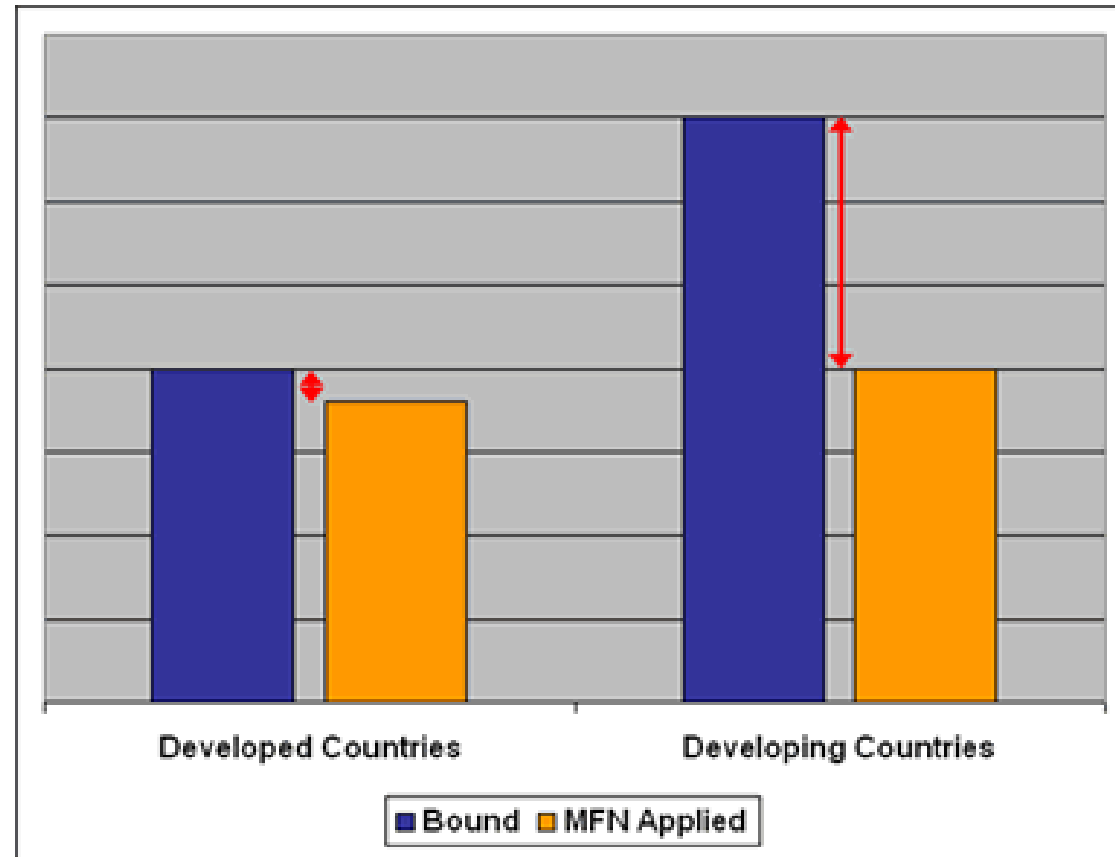
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- **Tariff bindings x applied tariffs**

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)



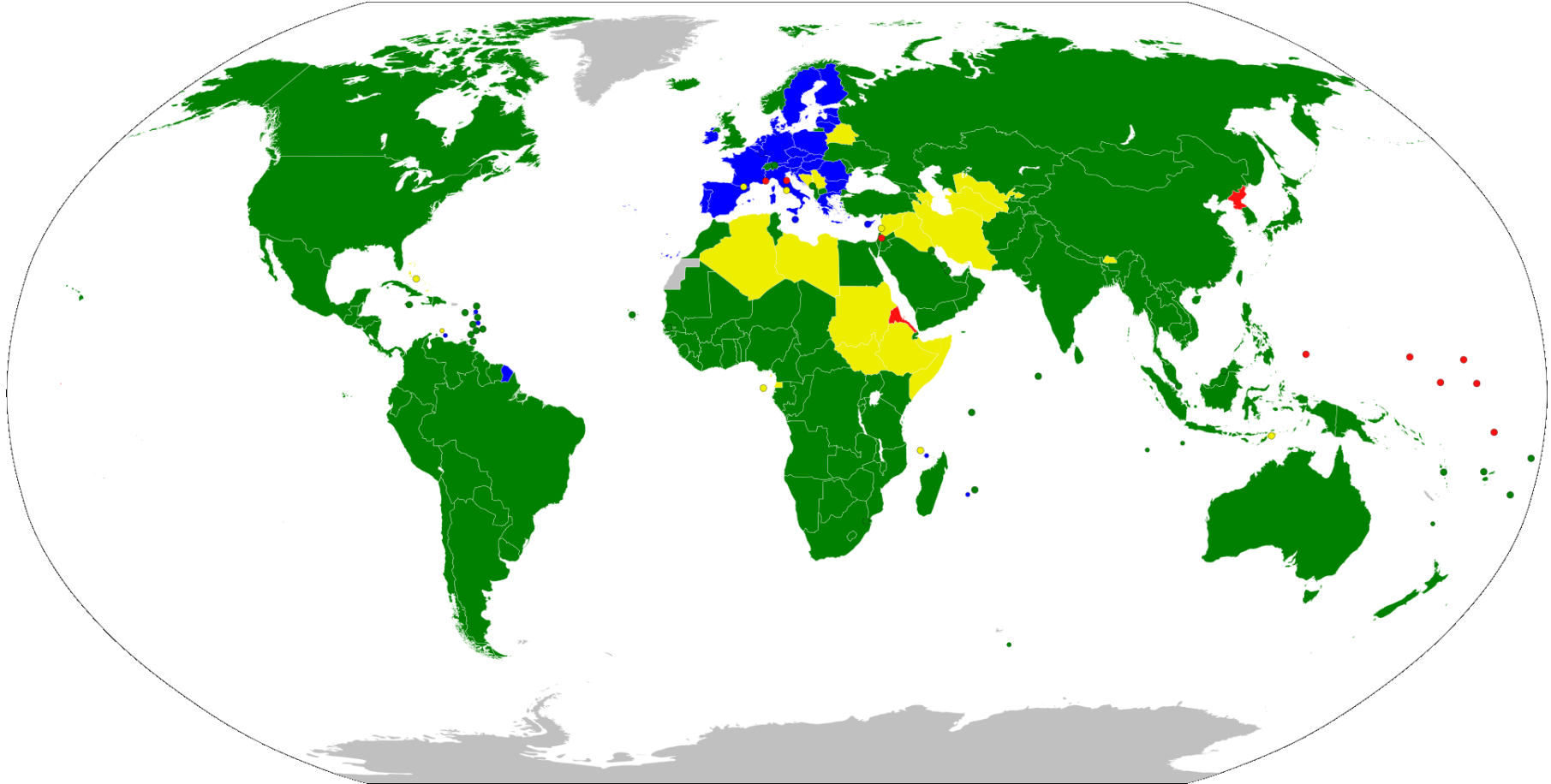


The GATT

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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

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- = Western idea of globalization

The GATT

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- **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)

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- > 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

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

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Brief history of the GATT/WTO

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- Agriculture
- Subsidies
- Dumping
- Product standards
- Intellectual property
- Trade in services
- Foreign investment

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- **Dumping, subsidies**
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- **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

- 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

- 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

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- - point 2 has been largely a failure after 1995

The World Trade Organization

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- 2) **GATS – trade in services**

The World Trade Organization

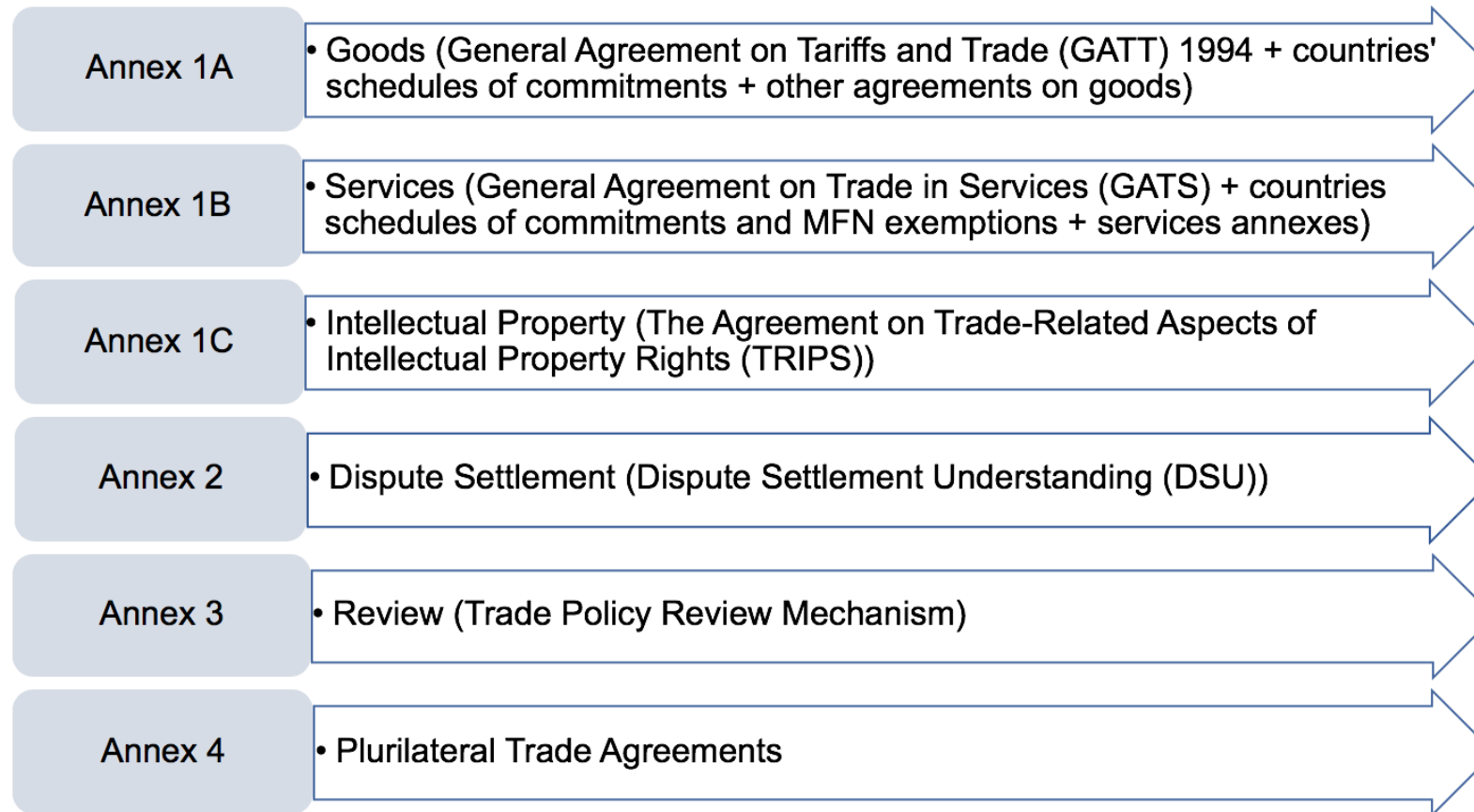
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- 2) **GATS – trade in services**
 - = banks and funds, telecommunications operators, law offices, tax advisors, tourism, transport...
- 3) **TRIPS - intellectual property**

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

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

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- **Final decisions – Appellate Body** – 7 arbitrators

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- *?Crowning jewel of the US unilateral moment?*

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- **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

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- 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

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- 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“

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- **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**

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- > **often leads to applied tariffs over 100 %!**

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

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- 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

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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

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- Often not

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- - 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

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- **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

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- Overtime, as China's own stockpile of intellectual property increases, it moves into a more pro-TRIPS position

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- > 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

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- **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“ 😊

China in the WTO

- Together: „Please open up your markets for products of our government-backed national champions“ 😊
- The West's problem – in 1995, nobody expected that industrial policy would become such a big deal – **China can massively subsidize parts of its economy without breaking any rules**

China in the WTO

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

China in the WTO

- 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

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

The West's approach to China

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- – **trade and globalization will democratize China** 😊
- 1990s – Fukuyamism + **China is not really a competitor + experience with Korea and Taiwan**

The West's approach to China

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- Turning point – under Xi – China turned back towards more authoritarianism and more protectionism when the West expected it to liberalize

2012:

The West finds out that China is not going to go liberal after all



The West's approach to China

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- > **US-China trade war**

The West's approach to China

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- 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

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- If you don't do much protectionism, you don't have anything to promise in trade negotiations

The US-China trade war

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The US-China trade war

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- > de-industrialization, followed by **permanently decreased wages and employment**

The US-China trade war

- **Political conflict** – winners vs. losers of globalization

The US-China trade war

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The US-China trade war

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- > Donald Trump

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The US-China trade war

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- Tariffs on Chinese products increased from circa **3 % to circa 20 %**

The US-China trade war

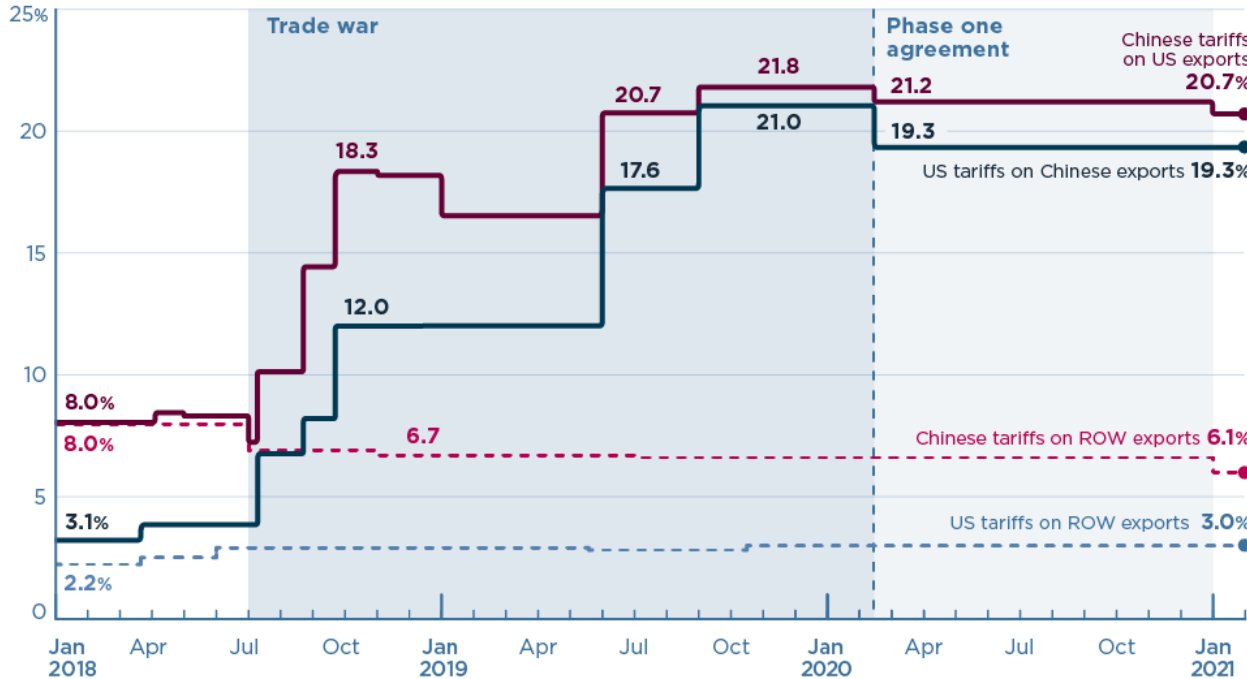
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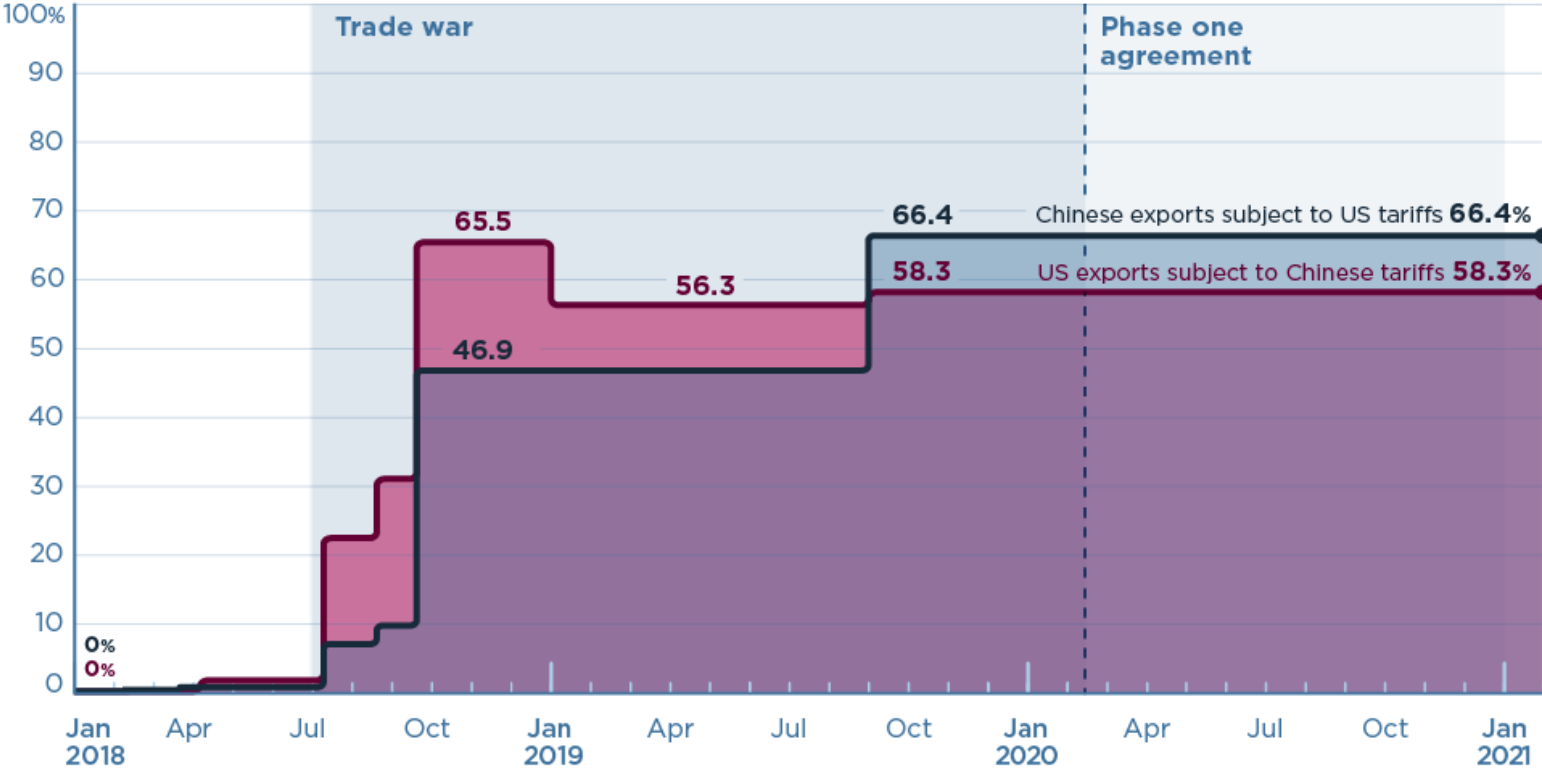
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- Chinese retaliation

US-China trade war tariffs: An up-to-date chart

a. US-China tariff rates toward each other and rest of world (ROW)



b. Percent of US-China trade subject to tariffs



The US-China trade war

- **Much worse for China** – far more dependent on exports, has more to lose

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- **Also not great for US customers**
- **Winners – US workers in import-competing industries; third countries – EU!**
- Popular in the US – Biden continues the same policy

The US-China trade war

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- = decoupling?

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- **Returns on investment** in China are higher than anywhere else in the world

The US-China trade war

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- **Far less successful** – China remains paramount for large multinational companies
 - - a giant market
- **Returns on investment** in China are higher than anywhere else in the world
- Sometimes – **feigned moves abroad** – products are completed in another country, so they avoid US tariffs etc.

The US-China trade war

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The US-China trade war

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- **From a source of cheap labor to a market** – the Chinese are rich enough to consume
- This goes hand in hand with China's drive to decrease its dependence on exports – **promotion of domestic consumption**
- Trade war = another incentive to make China less dependent on exports

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

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- Because **there are no rules against China favorite policies!**

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- 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!

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- 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

Next time - seminar

- Discussion! 😊