Reform of the World Trade Organization: Challenges, Progress, and China’s Position

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Summary

Since the founding of the World Trade Organization (WTO), the high heterogeneity among its members and the difficulty of coordinating those members’ interests, coupled with the guiding principle of consensus decision-making, have repeatedly led WTO negotiations into deadlocks. Recently, the US, increasingly dissatisfied with the distribution of interests in the current international economic system, has been forcing its major trading partners to make concessions more frequently, using unilateral trade policies intended to reshape the global trade order. Viewed from the contents of the reform proposals submitted by the WTO members so far, the differences between the parties are too obvious to reach consensus. The EU and Canada tried to respond to the US’s claims for WTO reform in their proposals as much as possible, such as the US’s dissatisfaction with the appellate body and the eligibility of developing members for S&DT. Meanwhile, they did not even put forward a plan on how to fulfill the Doha Round commitments, nor how to enhance the voice of developing countries and safeguard their development demands. The US proposal aimed to deprive a group of specific developing members of Special and Differential Treatment (S&DT), and substantially enhance the equality of rights and obligations in WTO system to contain the competitive advantage which S&DT brings to developing members. The US’s reform claims, especially the unilateral power feature of its approach of pushing reform, have made the confrontation in the WTO system much more intense. Thus, WTO reform is becoming even more complicated due to increased competition among great powers. Expanding regionalism is also likely to turn into a tool for geopolitical competition, posing a greater threat to the institutional basis of the multilateral trading system. China should support the multilateral trading system and guide reforms toward justice, inclusiveness, and openness. Furthermore, as it accelerates the pace of its own reform and opening up, China should narrow its divergence of rules with western countries within reasonable scope, ensure that due attention is given to the appeals of developing countries, and defend the goals and principles of the WTO.

Keywords

WTO reform, challenges, influencing factors, China’s positions
The World Trade Organization (WTO), the most important multilateral organization for global trade governance, plays an irreplaceable role in the promotion of trade liberalization. However, since its inception, it has experienced repeated crises, and the frequency of stalemates in its ministerial conferences has made it difficult to move forward. The current crisis is set to deepen further, as the US has taken a central position to stymie the WTO and has been blocking the appointment of new members to the WTO Appellate Body. The US has threatened and imposed additional unilateral measures, largely resting on grounds of national security. Thanks to the active sabotage and negative obstruction of the US, the WTO is now in certain jeopardy. Its future depends on whether it can adapt to recent changes in the world’s pattern, reconcile differences among parties, and break through this predicament in governance.

Main Challenges to WTO Reform

I. Institutional Crisis in the WTO System

A. Tension between state sovereignty and international mechanisms

An interdependent world requires multi-level governance, in particular in policy coordination among nation-states and international mechanisms. However, international politics is still dominated by the nation-state, and sovereignty remains a constitutional principle. If the design of international mechanisms places excessive constraints on state sovereignty, this is bound to cause crises of legitimacy. Further, any international rules must be translated into domestic law if they are to be implemented. So far, however, the greatest challenge in global governance has been the weighing of national interests relative international ones, in a context where state interests vary from country to country, making international mechanisms far from firm. Even the charter of the UN, which is the closest thing at present to a world government, states, “Nothing contained in the present Charter shall authorize the United Nations to intervene in matters which are essentially within the domestic jurisdiction of any State.” Among today’s complex global value chains (GVCs), the barriers that the WTO faces are largely not tariffs, and regulations such as competition policies are usually instituted in behind-the-border regulatory measures that are shielded by national economic sovereignty, making coordination extremely difficult.
B. Heterogeneity among membership and consensus decision making: A dilemma for WTO

The members of the WTO vary greatly in their politics, economy, and society, as well as in many other aspects, and this leads to differences in their responses to WTO policy. Developed and developing countries have different positions, and even within the groups of developed and developing countries, positions are not always uniform. During the Tokyo Round, for example, the US attempted to establish agricultural subsidy rules to curb European Common Agricultural Policy beginning a fierce fight with European countries.¹ And another example, as many members WTO are currently intending to initiate negotiations on e-commerce issues, the three largest economies, namely, the US, the EU, and China, have significantly different positions. The US prefers to emphasize digital trade, hoping to cover trade in both goods and services and to drastically reduce both cross-border and behind-the-border regulatory barriers; China is committed to eliminating traditional cross-border trade barriers,² with particular emphasis on national sovereignty in cyberspace; and the EU emphasizes data privacy, treating government regulation and self-regulation differently from the US.³ The WTO’s principle of consensus tends to mean that negotiations do not produce policy, due to the opposition of individual members, which is an important reason for its developmental dilemma and a key to its future prospects.

II. Real Dilemma of Globalization and the Multilateral Trade System

A. Challenges to globalization by intensifying unbalanced economic development

Globalization has not only changed the way countries interact with each other and the way multinational companies operate, but it has also provided a strong impetus for world economic growth by enriching purchasing choices and shifting and creating demand. On the other hand, the failure to adjust policy in a timely adjustment of policies has led to a widening income gap. In 1800, per capita income in the richest countries was about three or four times greater than in the poorest countries. By 1900, this had risen to 12 or 15

times, and in 2002, it was more than 50 times greater.\(^1\) The same has been true for domestic wealth distribution. In the US, for example, according to the Congressional Budget Office, from 1979 to 2013, the average after-tax income of the poorest 20% of households in the US increased by 46%, that of the middle 60% increased by 41%, and that of the top 1% increased by 192%.\(^2\) Developments in technology and productivity have led to increasing unemployment in traditional industries, while location transfers in manufacturing industries and outsourcing of services in developed countries have aroused strong resistance to globalization among the affected groups. This kind of sentiment could have been smoothed by programs provided to help low-skilled workers make the transition, such as ones that could provide better education and job training. However, due to the conflicts among domestic interest groups, the expanding equality has been blamed on globalization, leading to a rise in political populism and economic nationalism, which further weakens the political foundation of globalization.

B. Challenges to the legitimacy of the multilateral trading system

Although trade liberalization does provide opportunities for the economic development of countries, broadly speaking, by promoting the flow of production factors in the international arena, a country in particular may face an array of choices regarding the degree of liberalization rather than a binary choice between self-sufficiency or free trade.\(^3\) The adjustment cost for developing countries is much higher than it is for developed ones that have a relatively well-developed market level, and the blind pursuit of liberalization can easily lead to widespread unemployment and industrial decline in a developing country. Although they have spared no effort to push developing countries to open their markets to trade, developed countries themselves have failed to fulfill the Doha Round commitments and are reluctant to make concessions on agricultural subsidies and other issues. Indifference to the needs of developing countries and failure to address global economic imbalances are important reasons for the perceived lack of legitimacy of the multilateral trading system. Moreover, the principle of consensus on behalf of sovereign equality, while it may sacrifice efficiency, still fails to answer the question of why WTO-influenced groups cannot affect the rulemaking, causing the organization to fall into a quagmire of democratic deficit.

\(^1\) Steven Topik et al., *The World That Trade Created: Society, Culture, and the World Economy, 1400 to the Present*, trans. Huang Zhongxian et al. (Shanghai: Shanghai People’s Publishing House, 2017), 492.
III. Increasingly Inward-looking US Has Become a Threat to the Multilateral Order

A. US has gradually run out of patience with multilateral trading mechanisms

Although the US has won 90% of the complaints it has brought before the WTO, it was also the respondent in 55 cases, and it lost more than its rivals in 176 appeals over the period 1996–2017. The anti-dumping measures favored by the US have often been challenged, and only two of them were successfully defended in 29 appeals. A report of the Peterson Institute for International Economics (PIIE) stated that the dissatisfaction of the US with the WTO Appellate Body can be traced back to the 2000 US–EU dispute on US tax treatment of foreign sales corporations (DS108). Moreover, the Appellate Body supported China’s definition of state-owned enterprises in the 2011 Sino-US subsidy dispute on state-owned enterprises (DS379), aggravating the discontent of the US with the WTO. In the Great 1994 Sovereignty Debate, triggered by the discussion of whether to ratify the WTO Agreement, Professor John Jackson, an authority on international economic law, pointed out before the Senate that WTO law would not automatically be implemented by the US law itself. The US, when necessary, may choose to violate its treaty obligations at the cost of default. This conviction of the US’s ability to abandon the contract played an important role in the final ratification of the agreement by Congress. During the Trump era, the US has completely opened the Pandora’s Box found in the Great 1994 Sovereignty Debate, choosing not to fulfill its treaty obligations and interpreting this option as an important deterrent in the event of a serious mistake by the WTO.

B. Increasing difficulty of WTO reform due to competition among great powers

The narrowing gap in economic strength between China and the US and the general expectation that China may replace the US as the largest economy have aroused anxiety in American society. From a geopolitical perspective, as a rising power, China is structurally encouraged to challenge the current US-led international system, resulting in “intense security competition with considerable potential for war.”¹ This view drove the US to change its policy toward China, coming to see it as a strategic competitor, resulting in the assessment that economic competition with China is a threat to

US national security and attributing China’s economic success to unfair competition. From the American perspective, the current WTO rules cannot change the way China operates in its own economy. As a result, the US, on the one hand, has launched bilateral trade negotiations with China to solve structural problems, while on the other hand, it is trying to establish a new international economic order that better fits its own interests, taking aim at the existing mechanisms to regulate multilateral trade, thus triggering the greatest crisis for the WTO since its inception. The future attitude that the US takes toward the WTO will largely depend on whether it can deal with US concerns and modernize its rules on transparency, intellectual property protection, and state-owned enterprises.

Analysis of WTO Reform Proposals

Due to the pressure of series of measures taken by the US, it is imperative that the WTO pursue reform. In September 2018, the EU and Canada submitted separate reform proposals to the WTO. In early 2019, the US also submitted two documents for consideration regarding reform. Since then, China, India, Venezuela, Norway, Iceland, and other members of the WTO have successively clarified their reform positions individually or jointly. These proposals included reform suggestions for all three main WTO functions, that is, negotiation, monitoring, and dispute settlement. In addition, the proposals include how to redefine the eligibility of developing members for S&DT. All these proposals are in essence intended to redistribute rights and obligations in the WTO system. However, it is difficult to reconcile the divergences among different members.

I. Reform Proposals of WTO’s Negotiating and Monitoring Functions

A. Negotiating function

The EU’s and Canada’s proposals were intended to update WTO rules in a timely manner. Thus, individual members can bring issues under the auspices of the WTO, with the aim of eventual agreement by some or all members to ultimately form an integral part of the WTO framework. According to the EU’s and Canada’s proposals, future rules should focus on rebalancing the system and leveling the playing field to reducing barriers to service and investment and pursuing sustainability objectives for the global community. Therefore, these documents state, it must address
issues such as transparency, state ownership of enterprises, subsidies, and forced technology transfer; second, in view of the challenge of consensus decision-making, these proposals advised in favor of plurilateral agreements that are open to all members to join and whose results would be applied on a most-favored-nation (MFN) basis, strengthen the role of the WTO Secretariat, and help build greater political support and engagement in the WTO.¹

China’s advisory document also contained proposals to reform this function, but it has a different emphasis: first, it focused on inequity in existing rules on agriculture, in particular the provisions regarding the aggregate measurement of support (AMS). With this AMS, some developed countries can provide excessive agricultural subsidies. To this end, AMS should be phased out and eventually eliminated. Second, noting discriminatory practices related to country-of-origin rules and type of enterprise in trade remedies, China proposed a further clarification and improvement of WTO rules on subsidies, countervailing measures, and anti-dumping measures to mitigate the abusive application of trade remedies. Third, in negotiations on new issues, including fishery subsidies and e-commerce, the importance of inclusiveness, especially the development goals, was highlighted.²

B. Monitoring function

The EU and Canada proposed improvements in the WTO’s monitoring function, such as in the transparency of members’ domestic trade policies, to more effectively implement WTO rules. To this end, it is proposed to increase the effectiveness of committee-level monitoring, and strengthen the trade policy review mechanism by developing proper instruments, creating incentives for WTO members to fully comply with their obligations, actively collecting relevant information, and imposing sanctions on countries that exhibit willful and repeated non-compliance.³

China’s proposal for reform here also called for strengthening the obligation to notify of compliance, but at the same time, it also called for developed countries to play an exemplary role and improve experience sharing and exchange, with a particular emphasis on providing technical assistance and capacity building to developing members with capacity constraints and the least-developed countries in particular.

Further, all six joint statements of the trilateral meeting of the trade ministers of the US, EU, and Japan put forward relatively consistent positions on these issues, despite the fact that no reform proposals have been submitted by the US or Japan.

II. Proposals to Reform WTO’s Dispute Settlement Mechanisms

Most reform proposals put forward by members other than the US refer to the urgency of a reform of the WTO’s dispute mechanism, and the necessity of an effective dispute settlement mechanism was unanimously stressed. Even Brazil, which recently expressed a willingness to abandon the Special and Differential Treatment for developing countries, added, in its proposal, submitted at the end of March 2019, that the dispute settlement mechanism was “a key element in providing security and predictability for the multilateral trading system.”

All proposals in response to the crisis faced by the Appellate Body highlighted the importance of its independence and sustainability. It was proposed to increase the number of members of the Appellate Body, to extend their terms, to change the panelists’ role from a part-time to a full-time commitment, and to make outgoing members complete the decision on the pending appeals assigned to them for which hearings had already begun during those members’ terms. China, the EU, and India also recommended that outgoing members should continue to perform their duties until new members take over their roles, but their maximum extended terms must not exceed 2 years after the date of their original scheduled departures.

To solicit as much support as possible from the US, the proposals fully responded to the concerns it expressed regarding the Appellate Body, proposing to clarify its authority to interpret the meaning of municipal law as an issue of fact, stipulate that it should only address the precise issues raised by the parties on appeal to the extent necessary to resolve the dispute, and provide an additional channel of communication regarding concerns on precedent and related issues. Due to the complexity of appeal cases and the size of current backlogs, it was recommended that, with the consent of the parties to the appeal, the prescribed 90-day appeal period could be prolonged.

The Brazilian proposal placed the greatest emphasis on resolving US concerns. For instance, it proposed that an incumbent Appellate Body panelist could continue working on cases after the original term limit only when authorized by the Ministerial Conference or the Dispute Settlement Body (DSB); additionally, it proposed that reports published after the expiry of the 90-day deadline would be considered valid only if both parties in the dispute requested it and

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2 Ibid., 13-17.
3 See WT/OG/W/752, WTO, November 26, 2018.
4 Ibid.
the DSB concurred.\textsuperscript{1}

For now, however, all reform initiatives intended to strengthen the independence and sustainability of the Appellate Body run counter to the expressed wishes of the US. The negotiation of and the final text for the US–Mexico–Canada Agreement (USMCA) and the 2018 and 2019 US Trade Policy Agenda, all clearly reflect that the current US administration will continue to highlight the return of national economic sovereignty ensuring that its unilateral trade policy instruments will not be bound by WTO rules until it believes that those rules can be altered to correct what it considers the systemic problems of unfair competition in other countries.

III. Proposals to Reform Special and Differential Treatment for Developing Countries

A. US proposal

At the beginning of 2019, the US submitted two documents to the WTO that focused on how the identity of developing countries could be redefined and disputing the eligibility of some members for special and differential treatment (S&DT). First, it proposed to modify the approach of allowing developing states to self-declare. It holds that this status is illogical from the perspective of legal principle, and relying on it hinders the WTO from achieving a higher level of trade liberalization. Second, it advised that the dichotomy between developed and developing countries be revised. The proposal stated that the developing countries, as represented by China and India, have achieved rapid growth in various fields, and the WTO should follow the IMF, the World Bank, and other international organizations in making more fine-grained distinctions among countries in terms of level of development.\textsuperscript{2}

Third, it stated that four categories of members should not avail themselves of the S&DT qualification in future negotiations: OECD members and those that have begun the accession process, G20 members, members classified as high-income countries by the World Bank, and members whose trade accounts for at least 0.5\% of global merchandise trade (imports and export). According to 2018 data, 71 WTO members would be covered and thus should be excluded by these aforementioned four categories. Not only would the number of members qualified for S&DT be significantly reduced, but also members such as China, India, and Vietnam, which have an influence on the markets of developed members, would lose SD&T.\textsuperscript{3}

\textsuperscript{1} Monicken, Hannah, “Brazil Proposes Appellate Body Reforms to Address U.S. Criticisms,” Inside US Trade Daily Report, April 1, 2019.
\textsuperscript{3} See WT/GC/W/764, WTO, February 15, 2019.
B. EU and Canada proposals

Both of the proposals of the EU and Canada also rejected the overall flexibility supported by developing members based on development objectives, and they both proposed a modification to the dichotomy between developed and developing countries. Further, they contained encouragement for developing countries to graduate from S&DT status. However, at the same time, these proposals differed from the US document in the following two major aspects. First, they fully recognized the necessity for S&DT in general, if not in every case. Second, they preferred to implement a case-by-case method of analysis rather than the type of one-size-fits-all approach that the US promoted. The EU and Canada did not support any specific proposals to identify a member for S&DT eligibility or exclude another in advance. Instead, they advocated that the development status of different members be classified according to a set of objective criteria with the intention of providing a targeted and differentiated S&DT status to developing members through a needs-driven, evidence-based approach.  

C. Developing members’ proposals

At the end of February 2019, eight developing members, including China, India, and South Africa, submitted a joint document to the WTO with proposals for reform. In May, China separately stated its position on S&DT in reform proposals submitted to the WTO. The focus of these appeals was to strengthen the usability and effectiveness of the existing S&DT provisions and to continue to promote the Doha Round Agenda and the proposal of the Committee on Trade and Development for S&DT implementation, and both of these moves go directly against US proposals. First, the proposal drew attention to the huge gap that remains between developing and developed members. A country’s developmental stage, in this proposal, would be reflected by a wide range of indicators, such as GDP per capita, poverty levels, under-nourishment levels, receipts from IPR, share of value-added trade in GVCs, energy use per capita, and other, not only the single indicator of GDP.  

Second, the dichotomy between developed and developing countries was present in the original negotiation process that gave birth to the WTO. It was a part of the WTO system from the beginning and must not be arbitrarily altered. Third, the terms for S&DT were established through negotiations, and thus S&DT eligibility for developing members should not be taken from them arbitrarily. The development needs of developing members are still far from having been given due attention. Therefore, the accuracy, effectiveness, operability, and enforceability of the S&DT provisions should be further strengthened, and incomplete issues in development, including the agricultural subsidies from the Doha Round, should be given more attention. In addition, S&DT should continue to be part of future WTO rules. China also noted that

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technical assistance should be administered to help developing members integrate into GVCs. Fourth, developing members are encouraged to assume obligations that are consistent with their levels of development.4

D. Joint proposal of Norway, Iceland, New Zealand, Singapore, and Switzerland

Unlike the US, EU, and Canadian proposals, this proposal did not address the developing country status or the S&DT graduation mechanisms in particular, which are the focus of some controversy; instead, it reaffirms the importance of responding adequately to the developmental needs of developing members, especially the least-developed members, and the centrality of development in the work of the WTO. This document proposed that not too much stress be placed on the dichotomy between developed and developing countries; instead, it recommended that a pragmatic and result-oriented approach should be adopted and that an effective path to better S&DT functioning be creatively designed to achieve development goals in future WTO rules. The proposal also further sorted out the different modes of S&DT operation in the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services, the Technical Barriers to Trade Agreement, the Trade Facilitation Agreement, and other WTO agreements, and it analyzed specific paths for reference.1

Among the proposals for S&DT reform, the US position was the most radical, the EU and Canada proposals were more moderate, and the proposals of developing members such as China and India were severely opposed to the US proposal, and finally, the Norwegian proposal was more neutral.

IV. Brief Comments and Analysis

The above proposals reflect the positive desire of some WTO members to resolve the current dilemma, but the future remains full of variables. First, the US’s reform stance needs to be further clarified. The US has so far only expressed negative judgments, but it has not put forward any constructive reform goals or measures. Second, the proposed reforms have only a limited appeal to developing countries. The proposals put forward by the EU and Canada are largely responses to the US’s call for WTO reform, and they fail to offer specific solutions for how the Doha Round commitments can be fulfilled, nor did they touch on effective ways of amplifying the voice of developing countries or safeguarding their development needs. The US’s proposal to disqualify four categories of member countries from S&DT entirely ignored differences between large and small countries in the volume of trade, among many other issues. Moreover, the G20, an important platform for global economic governance, includes developing countries, and therefore, among many, it has greater legitimacy and effectiveness than the G7. Depriving the developing countries of
S&DT due to their participation in a global economic governance platform is tantamount to depriving developing countries of the right to participate in and speak about global economic governance. Not only is this unreasonable, it will also provoke serious conflicts with developing countries. This is self-defeating because without the support of developing countries, WTO reform is unsustainable. Third, the contest between China and the US is closely associated with WTO reform. China, the main antagonist to the US in its contributions during this round of WTO reform, is key. As its economy grows, China will take on greater and greater obligations in the WTO, and this has no reference to any considerations of legitimacy or lack thereof of in China’s model of economic operations, nor will China itself accept interference from external forces. If the US continues with pressing China to make fundamental changes in this way, the conflict will become a stalemate, which will be a real challenge to WTO reform run into trouble.

Key Factors Influencing WTO Reform

As it faces attacks on multiple fronts, WTO reform is becoming imperative. On the one hand, the developed countries, led by the US, have accused the WTO of failing to enable them to achieve the economic growth that they desire. On the other hand, the emerging countries believe that the governance structures that were put into place after World War II failed to reflect changes in the structure of the world economy, and the vast majority of developing countries is deeply dissatisfied with the long-term neglect of their own needs for development. The varied, even contradictory, calls for reform, coupled with the principle of consensus decision-making, have made the prospect of reform ambiguous. However, if the WTO, the most important multilateral trading organization currently existing, comes to a complete stall, the member countries will have to resort to bilateral or regional mechanisms on trade, and global commerce may fall apart into complete fragmentation, which would clearly have be consequence of serious losses to all members, including the US. Therefore, although moving ahead with WTO reform will be extremely difficult, the challenges that would ensue after the abandonment of reform efforts would be more extreme. The main factors that may affect reform prospects are as follows.

I. Changes to the World Economic Pattern According to WTO Members

From 2001 to 2010, the West lost 10.33% of its share of the world
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If the US can accept the contributions of other countries to shaping the world economic structure and their legitimate role, transcend its US-centric thinking, face the structural root of its domestic imbalances, and take rational advantage of its dominant power resources, it would accrue greater respect and legitimacy.

Western countries should be led by a better global vision. A prosperous world economy would not only be favorable for the fastest-growing emerging countries but for all regions. Only when the entire global economy has emerged from recession will the world finally escape the crisis of excess resulting from insufficient effective demand. For this reason, the inequality between developed and developing countries must be faced, and the development needs of developing countries must be centered. Only by working for balanced global development can we obtain a brighter future together. The trends of the multilateral trading system are closely related to its survival and development space, and therefore, the developing countries should firmly oppose unilateralism and hegemonic politics, actively integrate themselves into the world economy, and continuously improve global economic governance. Doing this, they should put aside their differences and jointly resist one-sided demands for reform, remaining undivided, setting aside short-sighted policies regarding fundamental interests. In addition, the primary task of the developing countries remains development. Domestic reforms must be based on national conditions, the costs of institutional adjustment and implementation must be weighed, and excessively high reform costs must be avoided. As ambassador Zhang Xiangchen said at the WTO General Council Conference in February 2019, “the current malfunction of the WTO negotiating mechanism is not caused by special and differential treatment or self-declaration, but by the capacity constraint of developing Members and the unreasonable power structure of the multilateral trading system.” Whether all members of WTO will be able to understand this correctly and adapt to it will be crucial for the future of the world’s multilateral trading system.

II. Progress in US-led Regionalism and Its Impact on the WTO

The WTO has never rejected regionalism. As early as the establishment of the GATT, regional integration was considered a legitimate exception to the MFN and the principles of non-discrimination. As WTO negotiations become deadlocked, regionalism inevitably expands to fill the gaps in WTO rules or to further enhance the level of liberalization so as to meet rising demand for economic integration. However, regionalism can bring about negative effects, such as the trade diversion effect, new-trade protectionism, and the fragmentation of the multilateral trading system. When regionalism is used as a tool to weaken, resist, or even replace the multilateral system rather than to make up for its shortcomings, it can become a threat to the multilateral framework. Currently, that threat is growing. Because the WTO rules do not infallibly reflect the best interests of the US, and the reform process is beset with difficulties, the US has spared no effort to build a regional, especially bilateral, free-trade network. Using its far superior strength, the US has forced its competitors to make concessions and has reconstructed its relationships with its major trading partners. Since Trump took office, the re-signed US–South Korea free trade pact and the USMCA, the ongoing Sino-US, US–Japan, and US–EU trade negotiations, and upcoming trade negotiations with the UK and Southeast Asian countries, are manifestations of this logic. The progress of these serial negotiations, especially the strategic intentions of the US free trade agreements (FTAs), is closely bound up with the prospects of WTO reform. If the US pursues an agenda that will weaken the influence of the WTO and continues to play a destructive role in the WTO or even continues its practices, as in the USMCA, of dividing other countries into market economies and non-market economies in its domestic laws, to restricting other members’ freedom to choose FTA partners, this will likely split the world into several trading groups, each following a different model, which would seriously hamper WTO reform.

III. Motivation and Leadership of China and the US in Reforming the WTO

Over the past few years, there has rarely been full consensus in WTO. Members lacked both sufficient political momentums to push for new agreements and sufficient leadership to lead relationships out of deadlocks. The US is currently taking the lead in calling for WTO reform, but the way it is doing so will rebuild order only by first destroying it. Its actions have caused extreme chaos in the global trade order, and it has imposed unprecedented urgency onto WTO reform. As a result, the political momentum guiding WTO
members to participate in reform has been objectively enhanced. Under this more recent pressure, ice may be broken on WTO reform. The participation of the world’s two largest national economies, those of China and the US, are undoubtedly critical to the success of any reform. In particular, the central motivation for reform of the US is adjusting the distribution of interests between China and the US in the WTO system. If the current Sino-US trade negotiation leads to an agreement, its impact on WTO reform will be multifaceted. First, due to the requirement for consensus decision-making, the existence of bilateral trade arrangements may weaken the momentum for US-led reform; second, if a solution to the so-called structural problems is achieved through Sino-US trade negotiation, this may actually remove some obstacles to the modernization of WTO rules; third, developed economies, represented by the EU and Japan, will work hard to reflect the results of Sino-US trade negotiation in future WTO frameworks to share the benefits of the negotiation; and fourth, developing country members hope that China will continue to strive to advance the development interests of developing countries along with its higher obligations. In this complexity, it is crucial for both China and the US to find the motivation and leadership to lead the WTO out of its current impasse. While that motivation depends largely on the will of China and the US, leadership depends on whether other WTO members can gather together to support and achieve good policy coordination. The influence of countries like India and Brazil in WTO negotiations is prominent and should not be forgotten.

China’s Position on WTO Reform

In any trade negotiation, complex issues will arise that make it difficult for economists to reach a consensus. Factors such as politics, security, and the environment must be considered. Consensus for policy adjustment based on the interests of all parties is needed, along with sufficient political will. As WTO Director-General Robert Azevedo reminded his hearers, multilateralism cannot always enable you to get what you want, and pursuing that is the secret to failure.1 If WTO reform is to move forward, the developed countries must take the development needs of developing countries seriously and deal properly with both old and new problems. As the challenges to global regulation coordination posed by the new state of trade are addressed, the root causes of the failure of the Doha Round failure must be faced. If they are not, all negotiations will once again end in stalemate without the support of the developing countries.

China, the largest developing country, should push WTO reform in the direction of justice, inclusiveness, and openness.

I. Justice.

The WTO should face the issue of the unevenness of development between the groups of developed and developing countries. The developed countries have more far-reaching symmetrical strengths in institutional adjustment, human resources, responses to shocks, and use of dispute-settlement mechanisms. The rights and obligations of the developed and developing countries should never be premised on reciprocity, and the definition of fairness should not be limited to economic benefits but should contain the political right to promote the development of the developing countries. WTO reform should be used effectively to promote economic growth and alleviate poverty in the developing countries, to avoid strict policy restrictions and excessive administrative and financial burdens, and to continue to support development through substantive special and differential treatments, as well as providing necessary technical and economic assistance to help them build capacity. Although the EU’s proposal provides for full support to developing countries to receive the necessary assistance and flexibility to achieve their development goals, it does not provide a specific method of achieving it.¹ In this regard, China, like other developing countries, should strive to ensure that the commitment of the developed countries and the WTO to helping the developing countries effectively implement developmental policies will be enforceable.

II. Inclusiveness.

The multilateral nature of the WTO and the heterogeneity of its members ensure that its purpose and scope must be inclusive and that genuinely beneficial trade policies should allow for differences among the members. For this reason, the WTO should not be dominated by any single country or group, nor should it specify a single model for development. Its rules must be flexible and allow members to express certain reservations about policies relating to different stages of development and special national circumstances. The EU and Canada proposals on the issue of special and differential treatment for developing countries have a certain rationality. However, what really matters here is that the definition of the needs to be taken account of in a needs-driven and evidence-based approach. The intention is that this relationship will be objective, just, and comprehensive, and developing countries’ issues will not become a chess piece in great power competition, serving certain countries’ purpose of restoring a hegemonic order. Moreover, the evidence that is taken into account should avoid

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placing an excess of the burden of proof on the shoulders of the developing countries. In addition, to maintain the legitimacy and viability of the WTO, to ensure its survival, improvements to decision-making efficiency should not be at the expense of diversity or democracy. The structure and operational procedures of the WTO should reflect the voices of different players so that a truly equitable opportunity is provided for developing countries to become integrated into the global economy.

III. Openness.

The WTO should devote itself to eliminating trade protectionism among its members. To this end, it is necessary to continue to eliminate the distortions of both tariff and non-tariff barriers, reduce unreasonable restrictive measures, promote free flow in production factors, and support the sustainable and profound development of globalization. However, special attention must be paid to the fact that opening is not the same as complete liberalization, and the steps that should be taken are not uniform. Opening should be based on each individual country’s own level of economic and institutional development level, taking the costs of industrial and labor adjustment into account, and allowing the developing countries to have more flexibility in rule making and a reasonable period of transition.

Finally, although reforms to the WTO are imminent, coordination of national policies involving state interests is bound to be full of difficulties. Before any progress can be achieved in the short term, China should join hands with other members in striving to promote negotiations to develop an open plurilateral agreement based on the principle of MFN treatment and pursue an early breakthrough in negotiations on e-commerce and other issues. On the one hand, this could reduce the fragmented effect brought about by regional FTAs, consolidating the multilateral trade system where it had been weakened. On the other hand, it may also help maintain confidence among WTO members and provide them with a reason to stay in the WTO. Whether will ultimately can play an important role in WTO reform is closely related to its own new developments in reform and opening up. As it strives for long-term developmental goals, China should, to a certain degree, narrow its divergence from the Western countries on rules to allow its own voice to be heard in WTO reform. In the meantime, as the largest developing country that has experienced continuous economic growth, China may not be able to obtain concrete preferential benefits. However, it should insist on WTO reform that will really safeguard the interests of developing countries. This is not only crucial to maintaining the objectives of the WTO, but it is also conducive to the smooth progress of reform.

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