



## FES GENEVA REPORTS

# A DECADE IN THE WTO: IMPLICATIONS FOR CHINA AND GLOBAL TRADE GOVERNANCE

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The International Centre for Trade and Sustainable Development, Geneva (ICTSD), the Geneva Office of the Friedrich Ebert Stiftung (FES) and the China Society for World Trade Organization Studies, Beijing (CWTO), organized a dialogue meeting to analyze and evaluate the time period from China's accession to the WTO in 2001 to today. Views on the future prospects of the WTO and China have also been exchanged. The complete program of the meeting is attached to this report.

As indicated in the outline of the program, an impressive success story as regards the past decade is nowadays combined with worries about growing imbalances as regards the next decade of China in the WTO. On the one hand, China's gross domestic product has doubled since 2001 and its trade is reaching in 2011 almost five times the size of 2001. The opening up of China to international trade has beyond doubt been the major driving force of China's economic growth. It has thereby contributed considerably to world economic growth. On the other hand, huge imbalances both in the global arena and in China's domestic scene are observed. China has become the

world's largest holder of foreign reserves and the world champion of exports, surpassing Germany, Japan and the USA. At the same time, a sizeable part of the world's poorest human beings – well below standard poverty lines – still live in China. The share of private consumption in gross national spending does barely go beyond forty per cent. State owned enterprises are piling up high debts and are to a considerable extent protected by government subsidies and a biased public procurement policy. On this background, a very rich and engaged dialogue took place over the day. The report can only highlight a few aspects of this debate.

For more detailed material please look at: <http://ictsd.org/i/events/dialogues/>.

After a welcome and introduction by Ricardo Melendez-Ortiz of ICTSD, the long standing former ambassador of China to the WTO, Zhenyu Sun, gave a fascinating presentation of China's road into the WTO and into the first years of membership. Ambassador Sun made it perfectly clear that China worked very hard, well before membership, for many years to get ready for accession. In addition, China accepted harsh requirements and conditions for membership – certainly

tougher than for any other latecomer to the WTO until now. All these efforts were done for one fundamental reason: to create a modernization effect with the result of higher competitiveness for China's economy. After ten years of accession to the WTO, a win-win situation can be observed for all WTO-member countries.

In his statement, incumbent Chinese ambassador to the WTO Xiaozhun Yi gave an overview of the recent membership years. He portrayed China as a trustworthy adherent to the rules and illustrated with examples, particularly with a number of cases in dispute settlement, how China has learned to live up to the rules of multilateralism. According to ambassador Yi, China has still to be seen as a developing country. It is, nevertheless, very sensible vis-à-vis the special needs of Least Developed Countries and is appropriately acting. He hereby gave an early answer to a question raised in later stages of the meeting: Should China switch from a "rule taker"-position into a "rule-maker"-position, thereby contributing more actively to good global economic governance?

Deputy Director General of the WTO, Harsha Singh, highlighted the dramatic

changes in the global trade flows due to dynamics in the global economy after China's accession to the WTO. Despite of the financial and economic crisis of 2008-09 (and after) the expansion has been enormous, particularly expansion in trade. The WTO's rule-based system of free trade has been a major contributor to this development, and China's membership is arguably the biggest success-story of the WTO so far.

In a session on China's influence on the WTO as an institution, one major debate took place around the never ending story of the Doha Development Agenda, having started in 2001 almost simultaneously with China's entry into the WTO, and certainly not ending (as many would have wanted so much) at the ministerial conference of the WTO in Geneva, mid-December 2011. As regards this debate, to make a long story short, China was not accused to be an active spoiler of coming to an agreement. But some participants argued that neither in July 2008 nor in the following period did China live up to its new role as one of the big three in global trade. In their view China still does not demonstrate sufficient willingness to shoulder global responsibility; concerning the Doha round

it is not actively contributing to a break-through. These days, they argue, China starts to match the USA and the EU in economic and trade power; it is far ahead of the other rising powers (India, Brazil etc.) and, therefore, cannot claim the status of a feeble developing country any more.

WTO-ambassadors of the United States, of India, of Brazil and of South Africa gave their opinions and, among other issues, made a number of comments on a best-selling book by Paul Blustein on the world trade system, published in 2009, which gives an insight into a famous “closed doors”-meeting on the Doha-Round in Geneva, July 2008. Rumors since then have it, that a Doha-deal was practically struck, but was blocked last minute. Who back then blocked the break-through? Was a break-through that close as it is reported? Paul Blustein, being one of the speakers in this session, stuck to his version. In this context, an interesting controversy broke up on the question of “sectorals” and of cotton subsidies, and if the USA are the only ones to fall behind the spirit of more free trade as regards cotton industry and cotton trade.

A second major issue in this session was the conspicuous increase of Preferential Trade Agreements worldwide. Speakers from China insisted that China prefers a multilateral trading system in comparison to regional or bilateral trade agreements. But China takes part in PTAs, most prominently in the Asia Free Trade Area. As elaborated by Razeen Sally from the London School of Economics, who is also the director of the European Centre for International Political Economy, East and South East Asia are the least integrated trade regions in the world. China’s approach might be called a policy of “trade light”. PTAs are probably no more than a soft power instrument for China’s regional policy, and hardly a trade policy instrument in itself. As long as non-tariff barriers to entry problems are not addressed in these PTAs, little would be achieved by them in economic terms. According to Henry Gao of Singapore Management University (formerly of Hong Kong University), China in fact is slowly becoming a “rule-maker”. This tendency was enhanced in the aftermath of the recent global financial and economic crises when it was realized in Beijing how successful China had

managed the odds and had actually stabilized the global economy.

Sergio Marchi, a former ambassador of Canada to the WTO, moderated a very rich session on trade relations of China with other WTO members. Gary Hufbauer, who is heading the Peterson Institute for International Economics in Washington D.C., analyzed in depth the dynamic and uneven trade relationship between China and the USA during the last decade. In an equally scholarly presentation, Debapriya Bhattacharya of the Centre for Policy Dialogue in Dhaka and a former ambassador of Bangladesh to the WTO gave the contrasting picture by addressing the issue of China and the group of Least Developed Countries. Although the weight of LDCs' trade with China is minimal as compared to US-China trade, striking dynamics are also visible here. In his analysis, the LDCs with their comparatively bad performance in the global economy have probably profited from China's outward oriented trade policy. It is true that China's exports to LDCs have grown at double the speed of the global average increase (being now tenfold higher than in 2001). However, its imports from LDCs, particularly from African

LDCs, have been growing even faster. Contrary to the huge surplus in trade with the USA, China has a net trade deficit with LDCs from Africa. Of course, China's huge demand of raw materials is the main driving force behind this phenomenon. Additionally, Debapriya Bhattacharya gave credit to China's high commitment to the Hong Kong Declaration which asks WTO-members to allow for duty-free quota-free trade with LDCs.

Two other interesting presentations referred to China's trade relations with "rising powers". Ambassador Roberto Carvalho de Azevedo from Brazil and Ambassador Fayzel Ismail from South Africa drafted a picture of an ever more forceful "South-South" trade. It is generally believed that in the immediate future more than fifty per cent of global trade growth shall be attributed to the South. Both speakers were mentioning with concern the high competitiveness of China in manufactured goods, at the same time pointing out a spirit of cooperation and solidarity "South to South". Despite of some dispute settlement cases with China concerning anti-dumping, these countries will continue to stimulate bilateral trade and play an

active role in achieving a fair outcome of the Doha round.

The final session was moderated by Matthes Buhbe of FES Geneva and addressed the question of “what comes next”. Xinkui Wang, President of the Shanghai WTO Affairs Consultation Centre and also Vice-Chairman of the All China Federation of Industry and Commerce, sketched the long and successful way from China’s opening process to WTO-membership and – not least in view of the crises as regards Western financial and economic systems - predicted a somewhat bumpier road ahead. It would be not enough for the WTO to play a role of facilitator of free trade. If the WTO does not want to become marginalized, new trading rules have to be invented that assist in strengthening global economic growth and in adjusting global economic structure. Similarly, Rongjiu Xue, a professor of international trade in Beijing and vice chairman of the China Society of WTO Studies came out as a strong supporter of WTO. He envisages for the next decade a leading role of China in applying the WTO-rules even more effectively and in participating as regards rule-making. In his view China should install a

multilateral trade negotiation committee with higher authority led by the Ministry of Commerce to take charge of both domestic and foreign WTO-related affairs.

Jean-Pierre Lehmann, a professor at Lausanne’s IMD, chose three scenarios for 2021 to shed some light on China and the WTO in the decade ahead. He attached relatively little probability to his more extreme scenarios which he called “complete harmony” and “total break-down” (speedy de-globalization being the consequence). Much more likely would be a considerable amount of disharmony without break-down. As main root for disharmony he identified fundamental differences in the value system of the various global players. Last, but not least, the final session took a look at climate change vis-à-vis China and the WTO. An excellent presentation was given by Tao Hu, chief expert of the trade and environment expert group at the Chinese ministry of environmental protection. In his view, there are formidable challenges ahead of us not only on a global scale but on China domestically as well to avoid major harm for the population. Behind China’s trade achievement, a huge environmental cost has to be borne by

the people of China. The country should follow a stringent strategy of green trade and would follow it to the extent that WTO rules allow for such policies.

In their synthesis of the day, Shuaihua Cheng and Ricardo Melendez-Ortiz of ICTSD thanked the speakers and the participants for their substantive

contributions that made the program a full success while at the same time made it too difficult to give due appreciation to the individual presentations. If one would try to sum up the day in a simple way, it is true that China's accession to the WTO has been proven to be an important enforcement of global trade governance.

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