



China on WTO Reform: Protecting Its Development Model

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China treats limited WTO reform as a response to [events threatening the stability of the global trade](#) order, including its customs war with the U.S. However, it also wants to maintain as many privileges as possible and avoid restrictions on its adopted economic model, in which the government has a strong role. Therefore, China's position on some issues, such as developing country status, is inflexible. It will be interested mostly in changes to the WTO arbitration mechanism and method for negotiating multilateral agreements.

The Importance of the WTO for China. Accession to the WTO in 2001 was one of the key factors in China's dynamic economic development in the last 18 years. It allowed easier access to other markets, primarily those of the U.S. and the EU. This strengthened the importance of foreign trade to the Chinese economy. In 2006, foreign trade amounted to almost 65% of China's GDP, a record then, but by 2017 it had fallen to 40%. In 2017, China's share of world trade was 13.4%, the third-highest after the EU and the U.S. China was the world's largest exporter of goods and the second-largest importer (see Table 1 below). WTO membership has enabled China to co-create the rules of international trade and has facilitated the integration of Chinese companies into global value chains. This was done through the inflow of foreign investment—by the 1990s, China was already one of the world's main investment destinations, thanks to low wages and other factors—which created numerous jobs in the country. At the same time, the level of integration of the Chinese economy with the world has increased.

However, China is selective when it comes to WTO rules on opening up its own market. As part of the Doha Round of trade negotiations, China has advocated increased protection of the markets of developing countries, of which it considers itself the largest, including a limited reduction in customs duties and other protective measures. In the absence of progress in negotiations at the WTO forum, connected to China's stance, it has engaged in numerous bilateral and multilateral agreements. Currently, China has signed 15 agreements with 24 partners, and another 14 encompassing 34 partners are being negotiated (some existing agreements are being negotiated by countries with which China already has agreements). When joining the WTO, China undertook, among others, to lower the average customs rate for trade within the organisation below 10%, open services sectors (e.g., telecommunications), and comply with intellectual property protection standards. Despite meeting the formal requirements for customs duties, it maintains a relatively high rate of 9.8% (e.g., in the EU it is 5.1%). China also applies non-tariff barriers, such as restrictions in the services sector, a requirement to establish a presence on its market using Chinese companies, and technology transfers. China is also accused of violating WTO rules on support for local companies, mainly through subsidies. For these reasons and others, 43 complaints to the WTO arbitration body had been filed as of May 2019 (most of which China has lost). China itself has filed complaints 20 times for introducing barriers to Chinese companies (most of which it has won) and was a [third party](#) to a dispute 171 times. The U.S., in particular, has been critical of China's economic policy. It started a [trade war with China in 2018](#) that [initiated a broad discussion on the need for WTO reform](#).

Limited Reform. China's position on WTO reform was presented by the Ministry of Commerce in a document dated November 2018 and enhanced in a communication from May circulated among organisation members. In the documents, it acknowledges the important role of the organisation in the development of international trade and recognises the need for reform in the face of changes in the global economy that include growing protectionist and unilateral tendencies.

China presents five proposals for WTO reform. First, it emphasizes the need to preserve the core values of the multilateral trading system, including non-discrimination, openness and decision-making on changes to the organisation based on unanimity. It argues the trade order should keep the WTO in a central role to prevent undermining it with competing concepts. Second, the reform should focus on key issues, including [unblocking Appellate Body \(AB\) appointments](#) so that the dispute settlement system (DSS) can function efficiently. [China is in a group of WTO members that proposed a solution to the AB crisis in November and December 2018](#). Third, the reform should be adapted to changes in the global economy, which means not only facilitation for investors and SMEs but also, for example, the reduction of agricultural subsidies by developed countries or misuse of anti-dumping investigations in which China is a frequent target. In addition, in the May communication, China points to the problem of abuse of the national security exception as a pretext for introducing customs (a reference to the U.S. actions), Thus, it proposes, for example, strengthening the notification system for such actions, as well as other aspects of trade policy of organisation members. Fourth, it wants special and differential treatment (SDT) and associated privileges maintained. This position was confirmed by the negative reaction of China and several other countries (including India) to U.S. proposals announced at the beginning of 2019 on limiting the application of developing country status, which accords certain advantages. At the same time, China expresses its readiness to take up its commitments "commensurate with its level of development" and economic potential. Fifth, China advocates respecting the diversity of development models of WTO members. This is the defence of its path of development based on the central role of the state. It also proposes non-discrimination of state-owned enterprises and investors accused of threatening the security of other members (this is a reference to [mechanisms for controlling investments developed by the EU and the U.S.](#)). China also calls for the abandonment of export-control measures by the developed countries, which hinder technological cooperation and other aspects of trade.

Conclusions and Perspectives. China's long-term development requires an open and efficient international trade system. Thus, it supports limited WTO reform, seeing this as an opportunity to avoid paralysis of the organisation. However, China strives to maintain the current solutions, which are beneficial to it, and to keep as much room for manoeuvre as possible in official negotiations at the WTO forum. However, as the Chinese representative at the WTO Zhang Xiangchen pointed out, China will only support changes if they constitute "real reform" and are not a "trap," meaning they will not be used to limit a country's development.

China seeks to quickly resolve the DSS dispute in order to be able to react in the event of an escalation of the trade war with the U.S. On this, the Chinese can count on support from India and the EU (which along with China have created a working group on WTO reform). On the SDT issue, China will not want to abandon its [developing country status and related benefits](#). However, its declaration that it will take on commitments "commensurate" to its level of development may indicate a readiness for discussion in other areas. For example, in response to the EU and U.S. accusations regarding the state's participation in the economy, minor changes may be possible and which already are being introduced to some extent, such as reducing subsidies for companies with a strong position on the market (talks on industrial subsidies were announced after the 9 April [EU-China summit](#)). China's attitude, though, will depend on concessions within the WTO in other areas (such as financing technology companies) and the preservation of key elements of the WTO regime, including the limited opening of sectors important to state security. China will support the negotiations of agreements amongst a smaller group of members ("flexible multilateralism"). It is a member of all three working groups announced at the WTO Ministerial Conference in Buenos Aires in 2017 (on facilitations for investors, SMEs, and e-commerce). Support for this format of negotiating trade agreements is likely to come from other countries involved in the work of the working groups, including the EU.

Consent to some WTO reform could be used by China in its negotiations with the U.S. China would try to show that some of the U.S. proposals are acceptable, which could favour de-escalation of the bilateral trade disputes (inflamed at the beginning of May this year after the U.S. increased tariffs imposed on China in September 2018). A similar role is to be played by a new foreign investment law to be implemented in 2020 aimed at providing the equality of rights of enterprises from other countries with Chinese entities. The resolution of the U.S.-China economic disputes and progress in negotiations on WTO reform would be beneficial for the EU by creating more predictable conditions in international trade.

Table: Summary of China's Trade in 2017

	Export	Import
Merchandise trade	€2,018.3 billion	€1,621.8 billion
Trade in services	€201.9 billion	€413.9 billion
Total trade	€4,255.9 billion	
Trade balance	€184.5 billion	
Share in world merchandise trade	14.8%	
Share in world trade in services	8.6%	
Share in world trade	13.4%	
Share of trade in the GDP	40%	
Number of Regional Trade Agreements	15	
Number of complaints in DSS (complainant)	20	
Number of complaints in DSS (respondent)	43	
Number of complaints in DSS (third-party)	171	
Average tariff	10%	
Average tariff (MFN)	9.8%	
Average tariff (weighted in trade volume)	5.2%	

Source: DG Trade Statistical guide, WTO.