

Developed Economies, China and the WTO 17th July 2007

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China's economic muscle today, the product primarily of its uniquely favorable labor-intensive manufacturing conditions, is fundamentally the product of a gradual process of trade liberalization. This process—still far from finished—has consisted of the lowering of barriers and impediments of all kinds to free enterprise and the voluntary exchange of goods and services. That the world is today more of a contiguous marketplace than ever before, has, among other consequences, privileged large swaths of civilization with unparalleled degrees of economic/financial autonomy, wildly exceeding that of its antecedents and increasingly unencumbered by national borders, languages or customs. This process of liberalization has also lifted countless millions out of poverty and gives continued hope to millions of others. Today, however, we are witnessing increasingly noisy and contentious international trade squabbles, informed entirely by a reactionary domestic political calculus.

The US Congress leads the way. Punitive initiatives that seek to occasionally incorporate and occasionally circumvent WTO dispute systems, raise the dangerous specter of retaliatory (and equally punitive) measures, a general detachment from the WTO rule-based interface and potentially devastating political and economic instability. As WTO agreements today outline the rough structure of multilateral, international trade, we would be well served to examine China's WTO accession and her behavior with respect to the organization and all countries that are members.

China's accession was viewed by many with initial skepticism and her entry agreement was consequently extraordinarily demanding. As a developing country, China was "in principle entitled by the WTO's "enabling clause" to special and differential treatment, the United States and other WTO members were successful in insisting that China enter the WTO on "commercial terms". This meant that China assumed obligations that in many cases went far beyond those expected of existing members at its stage of development. These commitments involved not simply reducing border barriers but undertaking detailed changes in internal policies." By most all accounts, China's accession and attendant economic liberalization have been impressive and resoundingly successful, effectively transforming a sprawling, centrally planned socialist state into a manifestly functional, semi-market-oriented economy.

From the 2001 accession until April 2007, China was involved in a total of 3 WTO complaints, one as a complainant (US steel safeguards) and 2 as a defendant. In other previously contentious areas they are noted to have quickly come into compliance (e.g., immediate response and reform initiatives last month with respect to

food and product safety issues). Robert Z. Lawrence finds that China's behavior in and toward the WTO provides "a clear demonstration that China views its interests as systemic and that these go beyond only those disputes in which it is directly involved." He argues China is likely the most active of the developing member countries, a consistent advocate (understandably) of lowering trade barriers, providing protections for new member states and especially drafting and crafting clear institutional rules. China, he writes, is an economic power in pursuit of "normalcy" as opposed to special or favorable treatment stemming from her unique circumstances.

Recently, however, China has been the target of a slew of "corrective measures" issued by its largest trading partners and aimed at "remediating unfair trade practices". In April of this year the US filed 2 WTO cases concerning piracy and copyright protection as well as enacted a reversal of a 23-year-old policy of not applying countervailing duties to economies categorized as non-market-oriented. Measures in the Congress have proposed the US taking a more active role in intervening in currency markets around the world judged to be "deliberately misaligned" and then challenging such "misalignments" at the WTO as a trade subsidy—a concept entirely foreign to the organization, supremely divisive and likely outside its mandate.

The currency issue—today's loudest—and western governments' increasingly mercantilist inclinations are much less founded in sound economic analysis (economists are far from consensus on the significance of currency undervaluation and the effects a sizable upwards correction would have) and far more the knee-jerk reaction of domestic political concerns. The uncomfortable result is the transforming of what has been and ought be apolitical institution like the WTO and the IMF—where interstate interaction is designed to be technically driven and rule-based—into a messy vehicle of political calculation, retribution and dysfunction. "Free trade" and its implications have so confused the world's largest "free-traders" that they seem ever more intent on rejecting the practice as ultimately unpalatable. A WTO where the developed nations of the world are seeking systemic alternations and exceptional treatment, while the "status-quo majority" is comprised disproportionately of poor, developing countries, casts a long shadow on the future and promise of international trade.