

## Event Report

# “China and the World Trade System: Does It Play by the Rules?”

OCTOBER 2, 2008

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*As part of an ongoing seminar on Chinese business and economy, Professor Shang Jin Wei, the N. T. Wang Professor of Chinese Business and Economy at Columbia Business School, brought together a distinguished panel to discuss “China and the World Trade System: Does It Play By the Rules?” On October 2, Professors Chad P. Bown of Brandeis University and the Brookings Institution, Scott Kennedy of Indiana University and Merit Janow of Columbia University’s School of International and Public Affairs offered insights on China and its interplay with the world trade system.*

The panelists were quick to highlight that China’s integration with the World Trade Organization (WTO) is one of the most important challenges facing the country’s business sector. Chad Bown, associate professor in the Department of Economics and International Business at Brandeis University, initiated the discussion by pointing out the importance of the WTO to unfettered world trade. He showed how the WTO strives to fulfill three fundamental roles: first, as a forum to organize trade discussions (such as the ongoing Doha round), second, as a secure place for trade dispute arbitration, and third, as a monitoring data-collection point.

With the growth of world trade, the role of the WTO has increased, as has the role of China within the WTO. Although China was a contracting party in 1948 of the General Agreement on Tariffs and Trade (GATT), the precursor of the WTO, the country left GATT in 1950. The Chinese started negotiations to join the WTO in 1986, and in 2001 acceded to the organization. As one of the newest members of the WTO, it remains to be seen how China will “play the game.”

China’s initial honeymoon period with the WTO came to an abrupt halt in 2006, when the United States filed five new trade disputes against China related to crucial parts of the old and

new economies, notably auto parts and intellectual property. Now China is properly thrown into the arena of international trade dispute resolution and mitigation, which many consider byzantine in the extreme.

Professor Bown explained that the reason the WTO is so intensely political is that it is often used as a mechanism to allay other concerns. For example, he explained that the United States would not hesitate to use WTO mechanisms to control seemingly unrelated issues, such as its bilateral trade deficit. In addition to the pure legalities of any case before the WTO, public relations are at play, as well as political constituencies at home.

How does this happen? The WTO allows for limited and focused responses to breaches of free trade. Given that defendants are usually found guilty, *how* the applicant country chooses to be compensated for these breaches of free trade is important. Until recently, the main players in this “game” have been the Americans and the Europeans. Their economies are similar, their exports and imports are analogous and their trading needs are approximately the same. As a result, they have used innovative ways to hurt each other for a breach of free trade, inflicting maximum political damage but minimum wider economic disruption to trade for their partner across the Atlantic. For example, in response to the closed market for U.S.-owned and South American-produced bananas, the United States was authorized to make a response sanction against Louis Vuitton handbags. Seemingly unrelated to bananas, this sanction was playing as much to the high-profile nature of the product as to the issue at hand. Similarly, the Europeans chose Tropicana fruit juice in another dispute to hit the politically sensitive state of Florida during an election year for the incumbent Republicans.

It is into this often-complicated environment that China is now thrust in earnest. How will China respond to this type of activity? The Chinese economy has some major structural differences from those of Europe and the United States. The country’s economy is upstream from both Europe and the United States, largely supplying both rather than competing with both. Therefore, the United States will not gain much from attacking part of the supply chain that, in some ways, keeps U.S. industry humming. Equally, China as a plaintiff has a weak hand because its industry consists of lower-end consumer goods that could be moved to several other developing countries with low labor costs. China will engage in a high-stakes game if it brings too many cases to the WTO against such industrialized and developed trading partners as the United States and Europe.

Generally, will China seek settlement, pursuit or mitigation? China’s recent admission to the WTO means that it is too early and difficult to fully gauge China’s response to cases brought

against it and those it brings against others. Even though China is playing the role of plaintiff in WTO hearings more and more, there was a general consensus among the panelists that, notwithstanding the difficulties, China needs to be more proactive and use cases against others to balance the playing field. In this way, China will have a more balanced role in the WTO.

Scott Kennedy, associate professor in the Department of East Asian Languages and Cultures and Political Sciences at Indiana University, demonstrated the importance of perception regarding China’s role in world trade. His research shows that 44 percent of Americans polled in 2008 thought China was the biggest economy in the world. This compares with just 10 percent in 2000. Yet this vast country has large swathes of its population’s income capped at \$2,500, and 200 million people live in poverty. Furthermore, while the Chinese may manufacture a vast amount of the clothes for the developed countries, so far no cars or other value-added items have been added to the roster of its leading exports.

Will China ever play by the rules? According to Professor Kennedy, there is a growing sense in China that it is important to adhere to WTO guidelines. He pointed out that WTO rules and regulations have become an educational priority. This is apparent even in bookstores, where one can see a rising number of books on the subject displayed prominently for the public.

While business lobbying is evident in China, there is no active lobbying group for international trade. Government protection of international trade is minimal, and perhaps because of this, the government needs to better understand what is at stake when it comes to international trade. A recent issue illuminates this point. During the melamine-in-milk scandal, which was a serious issue not just for China but also the world, the government ran for cover, declining to supply any information or give adequate safeguards. Professor Kennedy argued that this attitude will need to change, because engaging in world trade confers responsibilities of ensuring adequate standards and information.

While China is interested in protecting its domestic markets, the country is more interested in competing in international markets. China’s leaders appreciate that they need to do more if standards are to improve. Increasing technical standards in China will allow it to move up the food chain of value-added products. So, playing by the rules of the game is in China’s best self-interest.

Merit E. Janow, professor in the practice of international economic law and international affairs in the School of International and Public Affairs (SIPA) at Columbia University, gave context to China’s accession to the WTO and the huge strides the country made to be able to join. She argued that if this effort can be replicated, then China faces no problems in being

absorbed into the community of nations within the WTO. China is already a valued and active participant in working groups of the WTO. Professor Janow explained that dispute settlement is an important process but that the use of retaliation is not a good mechanism and should be avoided at all costs.

Professor Janow insisted that compliance is the best course of action for a country that has been found to violate the terms of the WTO. China is also able to compute the consequences for its reputation if objective rule of law has been broken and it fails to comply with the ruling of the WTO. It is evident, therefore, that playing by the rules of the game is not only in China’s best interests but also beneficial to the development of international trade.

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