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China's Mixed Attitudes towards the WTO

Both the WTO and China need reforms

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This year marks the twentieth anniversary of China's WTO membership. Today, while China has become a leading economy in the world, the WTO and the multilateral trading system centered on it are in crisis. Although China claims to be a model WTO member, others – especially leading economies such as the US, European Union (EU), and Japan – blame China for the crisis. This essay examines China's mixed attitudes towards the WTO and the implications for the future of the multilateral trading system.

China's view of WTO and the global trading system more broadly can be summarized in three observations.

First, China supports the central role of the WTO in the multilateral trading system but does not rule out regionalism. Under the banner of multilateralism, China has played an active role in establishing the [Multi-Party Interim Appeal mechanism](#) (MPIA) and negotiating a [WTO investment facilitation framework](#). These initiatives are in China's self-interest as it seeks to forge consensus with other WTO members, counter criticism that it contributed to the WTO crisis, and

enhance the legitimacy of its position in fighting a trade war with the US.

At the same time, China turns to regional free trade agreements (FTAs) that could reduce the harmful consequences of potential economic “decoupling” from the US and marginalization from global supply chains. Notably, China signed the [Regional Cooperation and Economic Partnership](#) (RCEP) to help secure its position in the Asian regional trade camp. China recently applied to join the [Comprehensive and Progressive Trans-Pacific Partnership](#) (CPTPP) in a bid to expand the reach of its FTA network well beyond the Asian region.

China's recent behavior suggests that it has some flexibility to undertake reforms on sensitive issues.

Second, China takes a carefully “bifurcated” approach to WTO reform. It responds defensively to some “sensitive” proposals that implicitly or explicitly target its economic development model, such as those dealing with state subsidies, state-owned enterprises (SOEs), and other forms of government intervention in the economy. China considers that reform in these areas would not only incur negative economic effects, but could also have undesirable impacts on social and political governance at home. China expressly states in its 2018 [Position Paper on WTO Reform](#) (Position Paper) that “China opposes special and discriminatory disciplines against state-owned enterprises in the name of WTO

reform, and the inclusion of issues based on groundless accusations in the WTO reform agenda.” It adds that reforms “should respect members’ development models.”

Nonetheless, China’s recent behavior suggests that it has some flexibility to undertake reforms on these sensitive issues, mainly through trying to align its trade policies with “advanced rules.” Notably, China has applied to join the CPTPP and the [Digital Economy Partnership Agreement](#) (DEPA), and has agreed in principle to a [Comprehensive Agreement on Investment](#) (CAI) with the EU. Unlike China’s existing agreements, these agreements contain more intrusive and politically sensitive rules with respect to SOEs, electronic commerce, sustainable development, and market access. These “advanced rules” could help cure the inadequacy of WTO rules in addressing some challenges posed by China’s system, albeit at a regional level. If well negotiated, application of these rules to China could be a sensible first step for reforming China’s economic development model.

While China’s embrace of “advanced rules” may be a manifesto of its willingness to align its trade policies with the global standard, serious concerns remain. Adoption of these rules would require reforming China’s economic development model over the long run, and it is unclear whether and to what extent China would follow through. As some leading economies are losing patience and trust toward China, its bid to join these pacts may be deemed a mere gesture that does not

warrant serious response. This illustrates why restoration of mutual trust between China and other leading economies is badly needed.

Third, China’s approach to WTO reform seems more responsive than proactive. That the WTO and its rule book have inadequacies is not a new observation, but WTO reform seems to have become a popular and pressing trade topic only recently, especially after the outbreak of the China-US trade war and the expiration of the provisions of paragraph [15\(a\)\(ii\) of the China Accession Protocol](#). Both events directed attention to China’s non-market economy status and, for some, made reforming China the major target of WTO reform. Understandably, China’s response to such WTO reform is inextricably linked to defending its economic development model.

China’s caution with respect to WTO reform can be seen in its Position Paper. While China welcomes proposals with respect to some shared concerns, such as restoring the Appellate Body, negotiating investment facilitation, and supporting small and medium-sized enterprises, it pushes back on other proposals, complaining that “some members do not accept the diversity of development models” and that “some members are trying to introduce ‘new concepts’ or ‘new terminologies’ into the reform agenda.” What the Position Paper largely fails to do is send a clear message as to what a future WTO should look like from China’s perspective.

The way forward is sometimes presented as a choice between reforming the WTO and reforming China. The answer is that reform is needed on both sides.

Today, no one seriously contests that the WTO should be reformed, and that the future of the multilateral trading system depends heavily on how trade relations among the world's leading economies are reshaped. As China is increasingly seen as a major competitor by some leading economies, trade relations between it and those countries have become politicized and even confrontational. The way forward is sometimes presented as a choice between reforming the WTO and reforming China.

The answer is that reform is needed on both sides. When the WTO was created, its designers hoped the organization would benefit all members. China should consider reforms that effectively address other WTO members' concerns and enhance mutual trust, and other leading economies should continue to engage China, especially if it embraces "advanced rules." Reforming the WTO offers an opportunity for all members, leading economies in particular, to revisit trade policies and reshape their trade relations. The opportunity should not be ignored or squandered.

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