WTO Reform: The China Issues

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1. Why reform *now*?  
   (positive argument)

2. Why reform *at all*?  
   (normative argument)

3. *How* to reform?  
   (the hard part)
Why *now* is the moment to reform the WTO to deal with the China issues

US imports from China covered by special protection by sector, 1980-2018

Why reform the WTO at all? (normative arguments)

• China’s State-Owned Enterprises (SOEs) are not going away

• China’s system creates implicit subsidies the SCM Agreement cannot tackle

• China’s development strategy accommodates acquisition of foreign technology on non-commercial grounds
When does the WTO need to worry about China’s SOEs and implicit subsidies?

Cross-border externalities: Economic channels

1. Foreign adjustment burden: workers and firms
   - Markets are not frictionless (Autor, Dorn and Hanson)

2. Predatory behavior when markets get concentrated
   - Examples from raw materials, rare earths, aluminum

3. Strategic behavior, profit-shifting
   - Imagine Boeing-Airbus but for…
How to reform WTO rules?

Create new rules for SOEs?

• Transparency (of ownership, directorship, subsidies,…)

• Bankruptcy

• Competition rules (‘competitive neutrality’)

• Borrow from European Commission ‘State Aid’ rules for member states, SOE chapters of CPTPP, USMCA (etc.)
How to reform rules?

What about all of China’s *implicit* subsidies?

- **Example**: Aluminum value chain – implicitly subsidized final products (OECD 2019)
  - Subsidized input (coal) to primary aluminum
  - Export restrictions on input (primary aluminum) to final product
  - VAT rebates on exports of final aluminum, but *not* primary aluminum

- **Result**
  - Chinese final aluminum receives large economic subsidies
  - But hard to pin down under SCM Agreement
How to reform WTO enforcement?

Enforcement issues

• Subsidies are not bilateral, requires coordinated enforcement

• More trade remedies – i.e., China’s MES, ‘public body’ – political necessity, but a distraction and abusable

• If rules (red lines) will be necessarily incomplete because of China’s evolving system…
  • …requires asking a lot of WTO Panels/AB to ‘believe economists’ that ‘these act as subsidies’
When does the WTO need to worry about China’s development strategy?

I.e., acquisition of foreign technology on non-commercial grounds – forced technology transfer, IP theft

Walk through that same process, but include...

- Informational asymmetries
- Technology sometimes ‘spilling over’ naturally
How to reform the WTO, institutionally?

Negotiate simultaneous, plurilateral deals on subsidies, technology/IP, [more]…

• Involve critical mass of countries only

• Include China in the negotiations

• Include enough plurilateral deals to establish reciprocal tradeoffs to get a big package (i.e., sectoral or issue-only one off deals probably won’t work)