

CHINA, THE WTO AND THE TRADE DISPUTE WITH THE US

Student number:1905557

Wordcount:2,982

Module name: International Trade Institutions and Policy
module code: EC246-5-SP-CO

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China, the WTO and the trade dispute with the USA

1. Introduction

China's entry as a member of the World Trade Organization (WTO) in 2001 has induced issues with other WTO members, especially the United State of America (USA). This paper aims to propose a thorough analysis on the trade dispute between the USA and China under the WTO.

At first, we will establish key background information about the process under which China joined the WTO by outlining the agreed terms. Secondly, we will explain the effects on China's trade after joining the WTO by looking at the change in its trade balance. Thirdly, we will analyze how the increase in US imports from China has impacted US consumers and workers. Fourthly, we will highlight the main points of contention in the current trade dispute between the US and China. Lastly, we will discuss about the cost of the dispute along with a proposal on how one might resolve it.

2. Investigation

a) The term under which China joined the WTO

Since the 1st October 1949 China has been a communist country with a central planned economy, nevertheless throughout the years, China has introduced domestic policies to liberalize its economy.

Under the leadership of Deng Xiaoping in 1978, China launched new economic reforms with a wider scope to enhance global cooperation between China and other countries. In 1986, the working party formally notified the General Agreement on Tariffs and Trade (GATT) that it wished to resume its status as a GATT contracting party. China's government, subsequently began to implement new economic reforms to become more of a market-based economy with the aim to join the WTO. ¹

¹ Huang, B., 2000. CHINA AND THE WTO: towards accession. *New Zealand International Review* ,, 25(03), pp.11-15.

The WTO resumed its negotiation with China on the 11th of December 2001 with a legal document of 900 pages, signed by the 142 WTO government members, making China a WTO member.

The country agreed to open and liberalize its communist regime in order to integrate the WTO free trade exchange market.

The acceptance of China as a WTO member was under the following terms: first China had to introduce non-discriminatory treatment to all WTO members by respecting the right to trade for all firms. Secondly, China had to remove its dual pricing practice along with favorable treatments for Chinese products. Thirdly, price controls implemented to protect its domestic producers had to be removed. Fourthly, China agreed to revise its domestic laws as well as enacting new legislations in order to comply with WTO terms. Fifthly, within the three years of accession, Chinese firms were given the right to exchange trade throughout the customs territory under WTO terms. Lastly, china agreed to not introduce nor extend trade protection barriers on agricultural products.²

The protocol of accession also stipulated that China government had to be transparent in sharing its information about the development of these commitments in order to meet WTO norms.³

³ Wto.org. 2001. *WTO / NEWS - WTO successfully concludes negotiations on China's entry -Press 243*. [online] Available at: <https://www.wto.org/english/news_e/pres01_e/pr243_e.htm> [Accessed 16 April 2021].

b) The effects of joining the WTO on China trade

China had to reform its foreign trade system in order to meet WTO terms by transforming its planned economy towards a market-based economy. Following WTO entry, China agreed to follow a range of Tariffs Rate Quotas (TRQ)⁴ which resulted into China lowering import duty rates. Based on a study from the Journal of Economic Integration who collected data on Chinese tariff rates in 17 different sectors before and after WTO accession, the total of China average tariff rate decreased from 21.41% to 7.85% after WTO accession.

Furthermore, China also committed to no longer use export subsidies after accession to WTO.⁵

The WTO has enabled China to benefit from free trade, predictability, non-discrimination rules, homogenous principles while trade protection on tariffs, quotas, subsidies were minimized along with easing customs procedures. Trade liberalization contributed to China economic growth as its trade balance increased which is the ratio of net export.

⁴ European Commission - European Commission. n.d. *Tariff rate quotas*. [online] Available at: <https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/market-measures/trqs_en> [Accessed 16 April 2021].

⁵ Ianchovichina, E. and Martin, W., 2004. Trade Liberalization in China's Accession to WTO. *Journal of Economic Integration*, [online] 16(4), pp.421-446. Available at: <<https://www.jstor.org/stable/23000767>> [Accessed 19 April 2021].

Table 1: China trade balance 1995-2019

Years	china trade balance (\$Billion)
1995	11.96
1996	17.55
1997	42.82
1998	43.84
1999	30.64
2000	28.79
2001	28.09
2002	37.38
2003	35.82
2004	51.17
2005	124.63
2006	208.92
2007	308.04
2008	348.83
2009	220.13
2010	222.4
2011	180.89
2012	231.87
2013	234.87
2014	221.55
2015	358.84
2016	255.48
2017	215.7
2018	106.71
2019	164.99

Graph 1: China trade balance 1995-2019

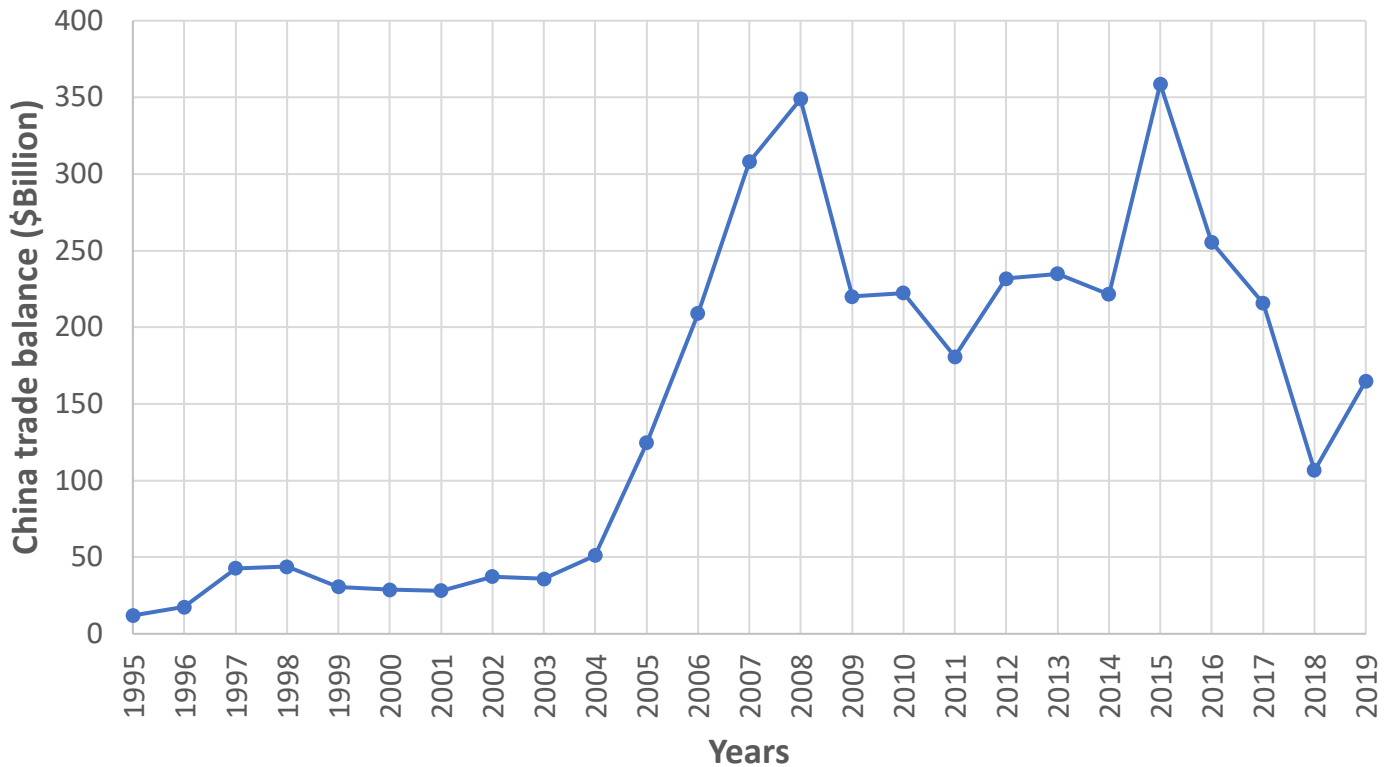


Table 1 and graph 1⁶ show China trade balance data from 1995 to 2019, the calculations are based on the US\$. From the data collected we can observe that after China joined WTO in 2001 there is a slight increase but it is not significant. Nevertheless, considering China was given a three-year accession period to become a WTO member, this explains why China balance trade has experienced a sharp increase from 51.17 \$billion in 2004 to 124.63 \$billion in 2005. Furthermore, we can observe a significant drop after 2008, due to the global financial crisis.

To sum up, the data proves a strong relationship between China becoming a WTO member and China trade balance increase.

⁶ Macrotrends.net. n.d. *China Trade Balance 1960-2021*. [online] Available at: <<https://www.macrotrends.net/countries/CHN/china/trade-balance-deficit>> [Accessed 16 April 2021].

Another effect from joining WTO is that China domestic productivity has increased since the liberalization of China economy led to a higher degree of competition along with better trade deals. Competition incentivized Chinese producers to maximize their productivity in order to stay in the market. Furthermore, China processing industry depend heavily on imported intermediate goods such as raw material, therefore, lower tariffs contributed to the decrease in Chinese production costs. Henceforth, an increase in competition and better trade deals with WTO members allowed China to perform economies of scale on many of its exporting industries which contributed to the increase in trade balance after 2004.⁷

Nevertheless, there were also negative effects experienced by China after joining WTO such as freer trade which resulted into China becoming reliant on certain imports, an example is soya beans for which 80% of its market demand is imported⁸. This dependence has decreased the diversification of China production in certain economic sectors such as agriculture. Being a WTO member allowed China to access agricultural exchange trade market with cheaper prices while the lack of subsidies led to a crippled agriculture. Freer trade subsequently led China to be more dependent on trade exchanges with WTO members, hence more vulnerable to price fluctuations in the global market.⁹

c) the effects of increased imports from China on consumers and workers in the USA

Following China access to WTO, bilateral economic ties with USA have developed. Freer trade between the two countries has disrupted USA macroeconomic because China has a

⁷ Amiti, M., Dai, M., Feenstra, R. and Romalis, J., 2017. *China's WTO entry benefits US consumers* / *VOX, CEPR Policy Portal*. [online] Voxeu.org. Available at: <<https://voxeu.org/article/china-s-wto-entry-benefits-us-consumers>> [Accessed 16 April 2021].

⁸ Globaltimes.cn. 2019. *China's soybean output increases, but still 80% reliant on imports* - *Global Times*. [online] Available at: <<https://www.globaltimes.cn/content/1166782.shtml>> [Accessed 16 April 2021].

⁹ United Nation Conference on Trade and Development, 2002. *Some implications of accession to WTO for China's economy*. *International Journal of Development Issues*, pp.93-128.

comparative advantage over the US. Consequently, US Increase in imports from China has led to a large American trade deficit with China reaching \$283.6 6bn in 2020¹⁰.

This means that Chinese products have a lower opportunity cost compared to American ones, an example is the difference of the labour hourly minimum wage, in the US is at \$7.25 an hour, while in China it is \$1.9 per hour. China comparative advantage has led to an increase of its exportation to WTO members, especially the US. As a result, US manufacturing imports from low-income countries went from 9% in 1991, to 15% in 2000, to 28% in 2007, whereas Chinese products account for 86% of this growth in imports.

The increase in imports has led to a disruption in the labor market as unemployment rose. For example, in the US manufacturing sector, employment rate has decreased from 12.6% to 8.4% between 2001-2007. This drop in the employment rate is due to the increase in imports from China without any offsetting rise in the demand for US exports.¹¹ Furthermore, unemployment rate in the manufacturing rose from 3.3% in 2000 to 7.4% in 2002, thus we can see that the increase in US imports from China has caused a rise in US unemployment rate.¹² US manufacturing industry was not able to compete with China lower prices because US multinational companies have fixed costs associated to labour such as minimal wages, working laws limiting allowed working hours.

On the other hand, China's WTO entry has generated an advantageous gain for US consumers whose demands from China imported products have increased due to their

¹⁰ AMADEO, K., 2021. *The Real Reason American Jobs Are Going to China*. [online] The Balance. Available at: <<https://www.thebalance.com/u-s-china-trade-deficit-causes-effects-and-solutions-3306277#citation-8>> [Accessed 19 April 2021].

¹¹ Autor, D., Dorn, D. and Hanson, G., 2013. The China Syndrome: Local Labor Market Effects of Import Competition in the United States. *American Economic Review*, 103(6), pp.2121-2168.

¹² Fred.stlouisfed.org. 2021. *Unemployment Rate - Manufacturing Industry, Private Wage and Salary Workers*. [online] Available at: <<https://fred.stlouisfed.org/series/LNU04032232>> [Accessed 20 April 2021].

cheaper price. Thanks to Chinese imports, the average price for manufacturing goods in the US decreased by 7.6% from 2000 to 2006.¹³

d) Examining the main points of contention in the current trade dispute between the US and China

The US and China share multiple points of contention in their bilateral trade. Since 2001, 11 out of 30 complaints that have been addressed by the US to the WTO were against China. US has been accusing China of implementing nonreciprocal trade policies such as subsidies towards its industries and higher tariffs applied on US imports, all practices not authorized by WTO rules.

US-China disagreements have been addressed through the Dispute Settlement Mechanism (DSM) which is a WTO practice that has for purpose to prevent bilateral trade spats from turning out into trade wars. The US has disputed a numerous amount of traded goods with China under the DSM. For example, in February 2011, the US accused China of using anti-dumping measures on its shrimps and diamond sawblades. The trade dispute was the result of a disagreement between both parties on how Anti-Dumping duties (AD) and CounterVailing Duties (CVD) are calculated. The US expressed its concern to the DSM that China trading policies were not respecting WTO terms according to its AD and CVD calculation, oppositely China objected to US accusation because they believed such instruments were calculated unfairly. Following the February 2011 trade dispute along with others, China claimed that the US Department of Commerce was using zeroing methodology in the investigation to measure China dumping margins which was inconsistent with GATT rules as well as the Anti-Dumping Agreement. Nevertheless, the DSM panel rejected China proposal that its AD and CVD should be based on Chinese interest rates as a benchmark to mitigate China trade transactions under the WTO rules.¹⁴

¹³ Amiti, M., Dai, M., Feenstra, R. and Romalis, J., 2017. *China's WTO entry benefits US consumers* / VOX, CEPR Policy Portal. [online] Voxeu.org. Available at: <<https://voxeu.org/article/china-s-wto-entry-benefits-us-consumers>> [Accessed 16 April 2021].

¹⁴ Zeng, K., 2013. High Stakes: US-China Trade Disputes under the World Trade Organization (WTO). *Asian Journal of Social Science*, [online] 41(3-4), pp.352-380. Available at: <<https://www.jstor.org/stable/23654848>> [Accessed 19 April 2021].

China was also accused of not meeting its economic reform promises in moving from a planned economy to a market-based economy by protecting State Owned Enterprises (SOEs) which are firms known to have historical privileges in the Chinese economy. The US has accused China government to still play a central role in the allocation of resources by having subsidies and a combination of lax competition policies that give Chinese companies a competitive advantage. For example, a Chinese shipping building company named Klaouptsidi increased from 20% to 60% its market share between 2001 and 2011, however Klaouptsidi benefited from a subsidy of \$4.5bn USD. The unfair competitive environment caused by Chinese firms has created severe tensions, especially with the US because China trade policies contribute to the rise of the US trade deficit.¹⁵

Another point of contention raised by the US is related to American multinational companies who have been forced and coerced to transfer their technological development to Chinese firms on non-commercial terms. An example is the US lawsuit against Huawei, a Chinese telecom company who is accused to have stolen trade secrets such as source code and robot technology, nevertheless, Huawei has denied the claims.¹⁶

China and the US have also been disputing over exchange rate manipulation because China has been devaluing the Yuan against the US dollar. The previous US president, Donald Trump has accused china of deliberately allowing the Yuan to fell in order to make Chinese goods cheaper, hence boost exports to the US.¹⁷

¹⁵ Trefler, D., 2019. The China-OECD trade divide: building bridges. *China Economic Journal*, [online] 12(2), pp.195-207. Available at: <<https://doi.org/10.1080/17538963.2019.1603644>> [Accessed 18 April 2021].

¹⁶BBC News. 2020. *Huawei: US issues new charges of racketeering and theft*. [online] Available at: <<https://www.bbc.co.uk/news/business-51497460>> [Accessed 16 April 2021].

¹⁷ Moosa, I., 2011. On the U.S.-Chinese trade dispute. *Journal of Post Keynesian Economics*, [online] 34(1), pp.85-112. Available at: <<https://www.jstor.org/stable/23119448>> [Accessed 17 April 2021].

e) Discussing the cost and how might the dispute be resolved

US and China dispute has turned into a tit-for tat tariff war; if the US was to introduce trade barriers against Chinese products, then China would also undertake retaliation against US products.

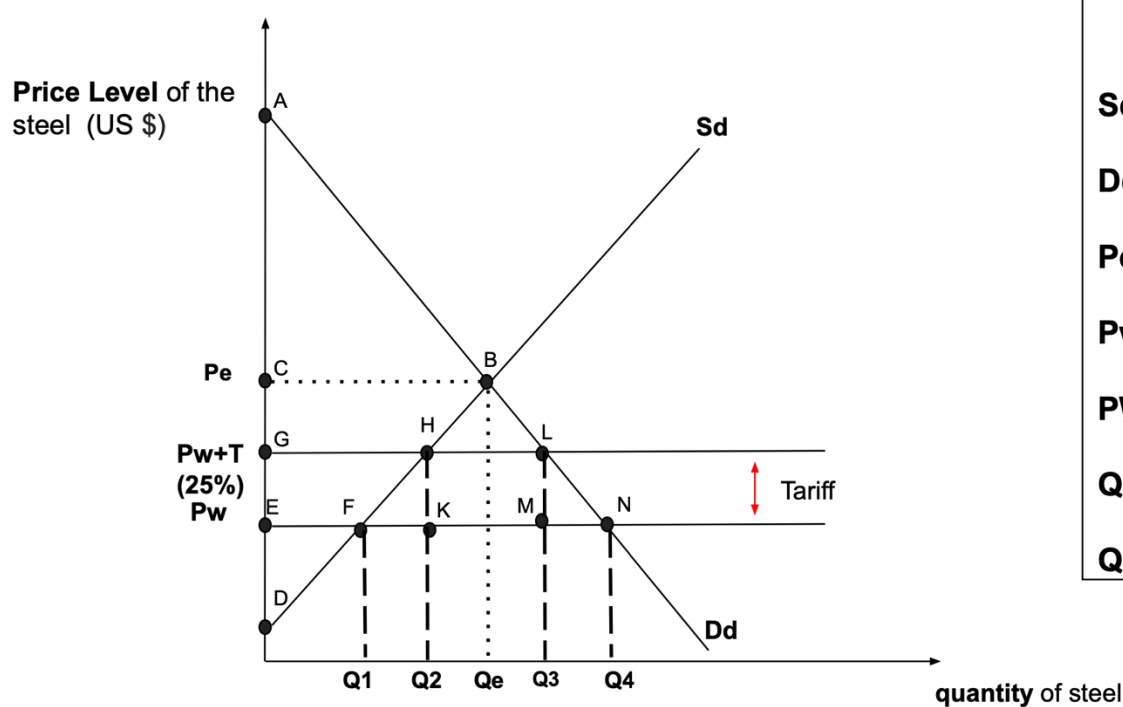
As a result, US special tariff increased from 7.5% in 2017 to 50 % in 2019 on Chinese goods and services imports. US decision on imposing special tariffs represents approximately \$250bn of imports from China. The US increased its trade barriers towards China because of the non-respect of the WTO agreement under the basis that china employed nonreciprocal trade policies because of its AD, CVD, SOES protection through subsidies and lax competition polices, robbing US technological development and devaluing the Yuan against US dollar purposefully. China response was to also increase tariff on more than 70% of imported US products.¹⁸

Tariffs barriers caused significant costs which are analyzed through the below example of the US tariff rate on steel of 25%.¹⁹

¹⁸ Bown, C., 2019. The 2018 US-China trade conflict after forty years of special protection. *China Economic Journal*, 12(2), pp.109-136.

¹⁹ Swanson, A. and Eavis, P., 2020. *Trump Expands Steel Tariffs, Saying They Are Short of Aim (Published 2020)*. [online] Nytimes.com. Available at: <<https://www.nytimes.com/2020/01/27/business/economy/trump-steel-tariffs.html>> [Accessed 16 April 2021].

Graph 2: US imposes tariffs of 25% on foreign steel of certain countries, including China



key words:

- S_d**= Supply demanded
- D_d**= Demand demanded
- P_e**=Price equilibrium
- P_w**= Price world
- P_w+T**= Price world+ Tariff
- Q**= Quantity
- Q_e**= Quantity equilibrium

Graph 2 demonstrates the effect the US tariff rate can have on Chinese steel. China is affected negatively from the US tariffs because the price of its steel increases by 25%, seen in graph 2 as an upwards movement from p_w to p_w+t . Consequently, the US tariff reduces Chinese steel imports to the US from Q_1 to Q_4 to Q_2 to Q_3 which benefits US producers as they obtain price advantage. Producer surplus increases as they can sell the same good for a higher price with the same production cost, this change is observed in the graph by an increase in triangle EFD to GHD. The US government also receives a revenue from the tariff which can be used to re-invest in the domestic economy, represented as rectangle HLKM.

Nevertheless, the beneficial outcome of tariffs for domestic producer and the government did not occur since China retaliated by also introducing tariffs as previously mentioned. This means that now both US and China exports are subject to tariffs, hence there is no winner as the exports for both countries became more expensive compare to worldwide prices.

Furthermore, Tariffs caused allocative inefficiency in markets alike in the steel market where the welfare loss can be seen in the graph as triangle FHK and MLN. Chinese and US

consumers will also loose from the trade barriers as they now have to pay more for the same product, thus consumer surplus decreases from ANE to ALG. Lastly, both countries rely heavily on each other trade exchange, hence a tariff on both sides just worsen country balance trade.

One way to resolve this dispute is to improve WTO dispute channels since the US and China conflict demonstrates that WTO has failed to propose realistic approaches to solve their disagreement.

Furthermore, the trade dispute can be resolved if both countries remove asymmetric competition and start cooperating more. A promising agreement was made on the 15th of January 2020 where China committed to import \$200 billion worth of American agricultural, energy and industrial products along with liberalizing market access for US indirect investments.

China and the US dispute over the intellectual property issue can be resolved by improving the communication and the transparency of information. To do so, the WTO can help install a bilateral accord where there is an assistance of neutral and unbiased technical staff who provide reports as well recommendations to mandate intellectual property rights between the two states.

Lastly, the trade dispute can only be resolved once both countries will eliminate their trade barriers, discriminatory rules and ease custom procedures.

3. Conclusion

To conclude, this paper has conducted a thorough analysis on the dispute between China and the US under the WTO.

We have outlined the terms under which China joined the WTO, China committed to change its trade policy in order to liberalize its economy. They also agreed to comply to WTO transparency of information in the evolution on their trade reform.

We have then analyzed the overly positive effects of joining the WTO for China trade. China was able to access freer trade allowing the country to obtain cheaper imports as trade barriers were lowered, easing custom procedures and non-discrimination rules. Consequently, a broad trade exchange market enabled China to improve its trade balance, thanks to WTO members with whom they formed new trade deals along with an increase of competition which helped China to maximise its productivity. A negative effect was that China became more reliant on certain imported products that were cheaper than domestic production alike soybeans, hence they became more vulnerable to market price volatility.

We have also described that China's entry to WTO has led to an increase in US imports from China. Consequently, the increase in imports has disrupted the US labour market by causing unemployment in certain economic sectors such as the manufacturing industry. Contrastingly, US consumers gained from China imported products since they were cheaper, thus there was an increasing demand from US for China products without an offsetting rise in the demand for US export due to China comparative advantage.

Furthermore, we have examined the main points of contention in the current trade dispute between the US and China. The US has complained to the DSM for China nonreciprocal trade policies as they were not meeting the AD and CVD terms, while China claimed this complain to be untrue since US calculation method for AD and CVD were incorrect. US also accused China for using trade policies such as subsidies or lax competition policies to its SOEs along with China coercing US firms to transfer their technological development. Hence China practices gave the country an unfair advantage in the market.

Lastly, we have discussed the cost of this trade war between China and the US, we looked at how tariff rates are affecting a country, therefore, US producers and its government have to supposedly benefit from its trade policy. Nevertheless, China retaliation by also introducing a tariff removed the counteracted producer benefits by making their exported products more expensive.

As a result, tariffs have made both China and US products less competitive compare to world price, moreover consumers in both countries are worst off as they have to pay higher prices for the same product.

A potential alternative to solve this trade dispute would be for US and China to find a bargaining agreement where they can increase trade cooperation without asymmetric competition. Both countries could also sign a bilateral agreement under WTO supervision to mitigate their dispute on intellectual property rights. Lastly, the dispute can only be resolved once the trade barriers on both sides are eliminated.

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