

Opinion **Global Trade**

It is up to China to save the global trading system

Faced with a recalcitrant America, Beijing is the last best hope for reviving the WTO

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Port workers in Qingdao, eastern China. Beijing should remember that it was its own export success that laid the grounds for a turn against the trading system © AP

Christina Davis 3 HOURS AGO

The world trading system is on the verge of collapse. President Donald Trump's announcement last week that the US will raise [tariffs on steel and aluminium imports](#) — ostensibly in defence of US national security interests — threatens much more than the foreign companies exporting to US markets and the American businesses using imported steel. It declares war on the trade system.

Claiming protection of steel is in the US's national security interest goes against everything that the [World Trade Organization](#) stands for. Why stop at steel? In the 1980s, when the US demanded access to Japanese agricultural markets, Tokyo claimed vehemently that food security justified restrictions on the import of rice. Although WTO rules explicitly allow for trade restrictions based on national security, countries almost never invoke it in defence of their trade protection. National security is the third rail of trade law, and Mr Trump just grabbed it with both hands.

When Mr Trump tweets that “trade wars are good, and easy to win”, he invites escalation from US trading partners. Why should other governments follow WTO due process when Washington disdains both law and punishment?

Even before Mr Trump's latest broadside, the WTO was in dire trouble. After 17 years of negotiations, its members still cannot conclude the latest round of negotiations (the "Doha round") to update its rules. India demands rights to increase protection of agricultural products, while China insists it will not go beyond the deep reforms it made to join the WTO in 2001. Where the US once led in the creation of the trade rules, now it challenges their value. By favouring bilateral over multilateral deals, Mr Trump joins a wider trend for preferential agreements that carve up global trade into regional blocs.

Contrary to the overheated claims made by protectionists in the White House, the WTO upholds rules to manage trade. It does not mandate free trade, nor can it force countries to change policies. Instead, its [164 member governments](#) negotiate rules for lowering barriers to trade. The system provides a predictable environment for businesses around the world and helps governments build a political coalition to support trade liberalisation.

The unravelling of the WTO would be bad for American companies. In 1948 — when the US led the world to establish the multilateral trade regime — tariffs averaged 20-30 per cent; today members have an average applied tariff below 10 per cent. While bilateral preferential agreements cut tariffs more, their rules of origin can be so troublesome that often businesses do not bother to use them. The trade facilitation agreement reached by the WTO in February last year will cut trade costs by 14 per cent. During the financial crisis, governments wisely resisted the temptation to close their borders, helped in part by shared norms and robust monitoring championed by the WTO.

The body has also been a critical tool to pressure a rising China. Its members have brought [39 cases](#) that led the Chinese government to revoke discriminatory tax policies, restrain export subsidies, and do more to enforce rules against counterfeiting and piracy. There are still plenty of problems, to be sure, but it is more effective to resolve disputes with China through the WTO than to slug it out bilaterally with Beijing.

It is a sign of how bad things have become that China offers the last hope for reviving the WTO. With the Americans rejecting a leadership role and the Europeans mired in a populist backlash, China has an opportunity to step forward. In a trade war, countries that depend most on exports will lose, and exports remain central to Chinese economic growth. And the Chinese should remember that it was their own export success that laid the grounds for a turn against the trading system. It would be the biggest loser from the death of the WTO. This week, Japan led 11 countries to sign an ambitious new [Trans-Pacific Partnership](#), despite US withdrawal. Now it is China's turn to show its commitment to free trade.

President Xi Jinping should propose a "Beijing round" of WTO negotiations. The agenda should include transparency for state-owned enterprises, rules on digital commerce and fair standards for protecting the rights to access and produce innovative technology. Doing so offers China the opportunity to limit arbitrary protection and increase access for its trade and investment overseas.

While China will clearly challenge the US tariffs in court, it should also engage with American demands to renegotiate WTO rules. Ultimately there needs to be a deal that offers reciprocal benefits for a politically sustainable global trade order. Perhaps as American public opinion cools, and if Republican leaders resist the tariffs, the Trump administration may hear reason. Until then, the WTO offers a chance, however small, for Messrs Trump and Xi to step back from the brink.

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