

## I Introduction

The holy trinity of the World Trade Organization (WTO) is broken. *Negotiations* on new rules depend on confidence that existing rules will be *implemented*, which requires notifications for robust committee review and *dispute settlement* when clarification is needed, which sometimes should lead to new negotiations rather than authoritative adjudication. When negotiations are blocked, however, some Members are tempted to take unilateral measures to address their problems and/or to pursue bilateral solutions. Most Members want WTO reform, even if they have different aspects in mind. This is reflected in the outcome of the 12th WTO Ministerial conference held in Geneva in June 2022, which instructs the WTO General Council and its subsidiary bodies to develop proposals on how to improve all functions of the organization for consideration.<sup>1</sup>

In this paper, we focus on how China understands WTO reform, and how the other two leading powers see the China problem in the WTO. China, the EU, and the U.S. are the world's largest traders, and many of the tensions in the trading system arise in the relations among them. We discuss elements of the WTO reform agenda through the lens of positions that have been taken by the three major trading powers. In an original survey of the expert trade policy community conducted in June 2020, hereafter referred to as Survey, we found that respondents from the EU and the U.S. are broadly aligned on the WTO reform agenda, while respondents from China often diverge in the priorities accorded to these subjects (Hoekman and Wolfe, 2021; see also Fiorini et al., 2021). Our aim is to shed some light on areas of alignment, or absence of alignment, across these three players on the main subjects associated with reform debates.



emerging economies, notably China, often as part of – intermediated by – global value chains (GVCs). The resulting rebalancing of global output and incomes gave rise to adjustment pressures in the United States and other OECD countries. These in turn fostered perceptions that China's export success reflected the use of policies that unfairly advantaged Chinese firms. This... was a factor in the “backlash against globalization” observed in many high-income countries. Such adjustment pressures will continue to rise as the world economy, driven by technological and organizational innovations, shifts towards services activities and trade come to involve more e-commerce and cross-border digital transactions. Changes in technology, and efforts to address climate change, will impact segments of the labor force that have previously benefitted from or been relatively sheltered from, internationalization.

Global trade governance has not kept up with ongoing changes in the structure of the world economy and shifts in the composition of cross-border flows. Competition between governments to stimulate domestic economic activity through “make it here” policies is growing. Such national policies may give rise to negative cross-border spillovers, either by design or inadvertently. Policies may be designed to limit the ability of foreign firms to sell goods and services and constrain the ability of firms to utilize new technologies. Addressing the associated cross-border policy spillovers calls for international cooperation.

Theory, supported by extensive evidence, suggests that addressing cross-border policy spillovers, whether pecuniary or non-pecuniary, is a major motivation for the negotiation of trade agreements, along with a political economy (commitment) incentive for cooperation. Although global trade was relatively robust in the past decade, implying weaker incentives to engage in multilateral trade agreements than is sometimes supposed by observers, the rising prevalence of trade conflicts associated with the adoption of unilateral protectionist trade policies in major countries, however, geopolitical and security interlinkages (a political constraint on international trade) TjxT w

therefore might have a good economic development rationale despite giving rise to potential negative cross-border competitive spillovers.





### III Fixing the Machine

As discussed at greater length in Hoekman et al. (2021) and Hoekman and Wolfe (2021), WTO reform spans two sets of issues: (i) improving working practices and the operation of the institution (“fixing the machine”); and (ii) overcoming obstacles that impede the negotiation of new trade

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noted by Hoekman and Nelson (2020), calling for work programs to do so may be criticized as kicking the can down the road. It is not. WTO members simply do not have enough information to develop a common understanding of where new rules are needed and the form they should take.

WTO committees and councils are the first deliberative bod-st QxBTx/FZ

firms, having the same concern. Although the U.S. was cool to the proposal for obscure reasons, it made a similar proposal in the SCM Committee for ensuring timely written responses to questions posed by Members on the subsidy programs of other Members (WTO, 2020d). China has resisted every time the item comes up, including

Subsidies Members

of the dispute settlement cases brought against it, Appellate Body rulingp QxBTx/FZTx



has taken a leadership role in the JSI on investment facilitation, acting as a co-sponsor and actively encouraging participation by developing countries.

The move to plurilateral is only a partial solution to the difficulty of concluding negotiations by consensus. Each negotiation can only be concluded if a critical mass of Members participates, whatever the legal form of an outcome. Plurilateral approaches therefore are not a panacea, but they offer a mechanism for large trade powers to cooperate without engaging in negotiations with all WTO members (Hoekman and Sabel, 2021; EU's proposal on WTO reforms EU, 2020). It contains



## VI Prospects for WTO Reform: China's CPTPP Application

in recent years; they think that the application is just a gesture to the world but that China is not prepared to comply with the rules of CPTPP. A counterargument can be based on what China agreed to in the 2020 Comprehensive Agreement on Investment with the EU. Although ratification of this agreement has been stalled due to political factors and the



competitor, they could adopt interpretations of CPTPP provisions that make it more difficult for China. China eb QxBTx/F3Tfx/DeviceRGB csx(0.0.0)cx2

negotiating agenda or set of issues to be considered. Respondents from

crisis, with China-based respondents indicating that this is a particu

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When we look at the pattern of current initiatives, it is striking that at least one of the three is a supporter of one. Can trade-offs be found whereby all three could assemble a package that they and others could support? While China co-sponsored the Informal Dialogue on Plastics Pollution, unlike the U.S. and EU, the EU is the only one of the three to sponsor the proposed statement on fossil fuel subsidies. China has joined the Trade and Environmental Sustainability Structured Discussions, as have the U.S. and the EU. China was a cosponsor (the U.S. was not) of an Ottawa Group proposal (WTO, 2021e) for a non-binding General Council declaration on the trade policy response to the COVID-19 pandemic that sought to ensure access to essential goods, including therapeutics and vaccines, by avoiding unnecessary restrictions and enhancing transparency.

The EU cosponsored a U.S. proposal aimed to improve notifications, but China did not. China cosponsored an EU proposal on improving the work of committees, but the U.S. did not. Compromise on dispute settlement, the other big element of fixing the machine will be added.

Evenett, Simon and Richard Baldwin (eds.) (2020) *Revitalising Multilateralism: Pragmatic ideas for the new WTO Director-General*





