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Dong Yan & Li Chunding

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China and the Reform of International Trade Governance System

Dong Yan^a and Li Chunding^b

^a *University of Chinese Academy of Social Sciences; Institute of World Economics and Politics, CASS*

^b *College of Economics and Management, China Agricultural University*

Abstract

The 21st century has carried the international trade governance system into a period of accelerated reshaping. The reform has been fueled by many factors including the requirement of the in-depth development of global value chains for cross-border institutional coordination, the requirement of the form of digital economy for new digital rules, and the requirement of the dominant countries under the traditional international trade governance system for the maintenance of their own interests. The reform of international trade governance system has driven China to adjust itself to external pressures while creating opportunities for the country to deepen the reform and join international trade governance. China as a beneficiary and firm supporter of economic globalization has rapidly grown from a marginal participator in economic globalization into a builder and contributor of the governance of the international trading system. It plays an active part in the reform of international trading system and the construction of a community of shared future for mankind by means of the making of rules, the reshaping of rules, the adjustment of rules, and the adaptation to rules. In addition, the critical measures for China to cope with the changes of globalization also consist in its deepened domestic reform, proactive opening-up, facilitated alignment with domestic and international rules, and an institutional environment suitable for the new situation of a “dual circulation” development pattern.

Keywords: international trade governance system, international economic and trade rules, CPTPP, WTO reform

Since the 2008 financial crisis, both the micro-level basis for existing international trade governance system and the conditions for power balance embodied through such basis have experienced significant adjustments: The traditional trade model is developing towards the division of labor in value chains and the digital economy,¹ the institutional competition between

1 Richard Baldwin points out in his 2011 article that the trade rules of the 20th century embodied through the world trade system cannot meet the requirement of the trade development in the 21st century for rules anymore. See Richard Baldwin, 2011, “21st Century Regionalism: Filling the Gap between 21st Century Trade and 20th Century Trade Rules.”

great powers is being intensified in the process of power transition, the COVID-19 pandemic impact is impelling the development of digital economy as a new economic form, and the values such as human rights and labor protection are being further incorporated into the restructuring of international trade rules. In a word, international trade rules have thus entered a period of reshaping.² The existing international trading system has been facing the largest and deepest restructuring and adjustment since the Uruguay Round, and this new round of reform is the concentrated outbreak of accumulated contradictions in the process of economic globalization, and the reform of rules complying with the requirement and trend of globalization. The restructuring and adjustment of the international trading system will impact on the direction and pattern of development of and cooperation on global economy and trade. The Uruguay Round laid a foundation for the formation of the basic pattern of today's economic globalization. The global trading system has experienced three stages of development since then, namely the period of primary shaping (1994-2001), the period of rapid development (2002-2008), and the period of turbulence and adjustment (from 2009 up to the present). The structure of global production, trade, consumption, and real economy has resulted in the "triple-pole" situation of value chains, namely the American value chain centered around the US, the European value chain centered around Germany and the Asian value chain centered around China.³ Regional trading organizations around the globe have formed a network structure mainly consisting of the EU, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP), the Transatlantic Trade and Investment Partnership (TTIP), the EU-Japan Economic Partnership Agreement (EJEP), and the US-Mexico-Canada Agreement (USMCA). These regional trading organizations have been playing important roles in the reform of the international trading system. At present, trade protectionism and deglobalization trend are gaining momentum around the world, and the COVID-19 pandemic has further accelerated the breakup and reconstruction of global industrial chains and value chains. Both have exerted unprecedented impact on economic globalization. At the same time, regional trading organizations are developing dramatically, and the adjustment of global trading pattern has become an inevitable trend in general. This paper aims to analyze the trend and underlying reason of reform in the international trade governance system, and then discuss the path choice for China to take part in this reform.

I. International Trading System: Reshaping

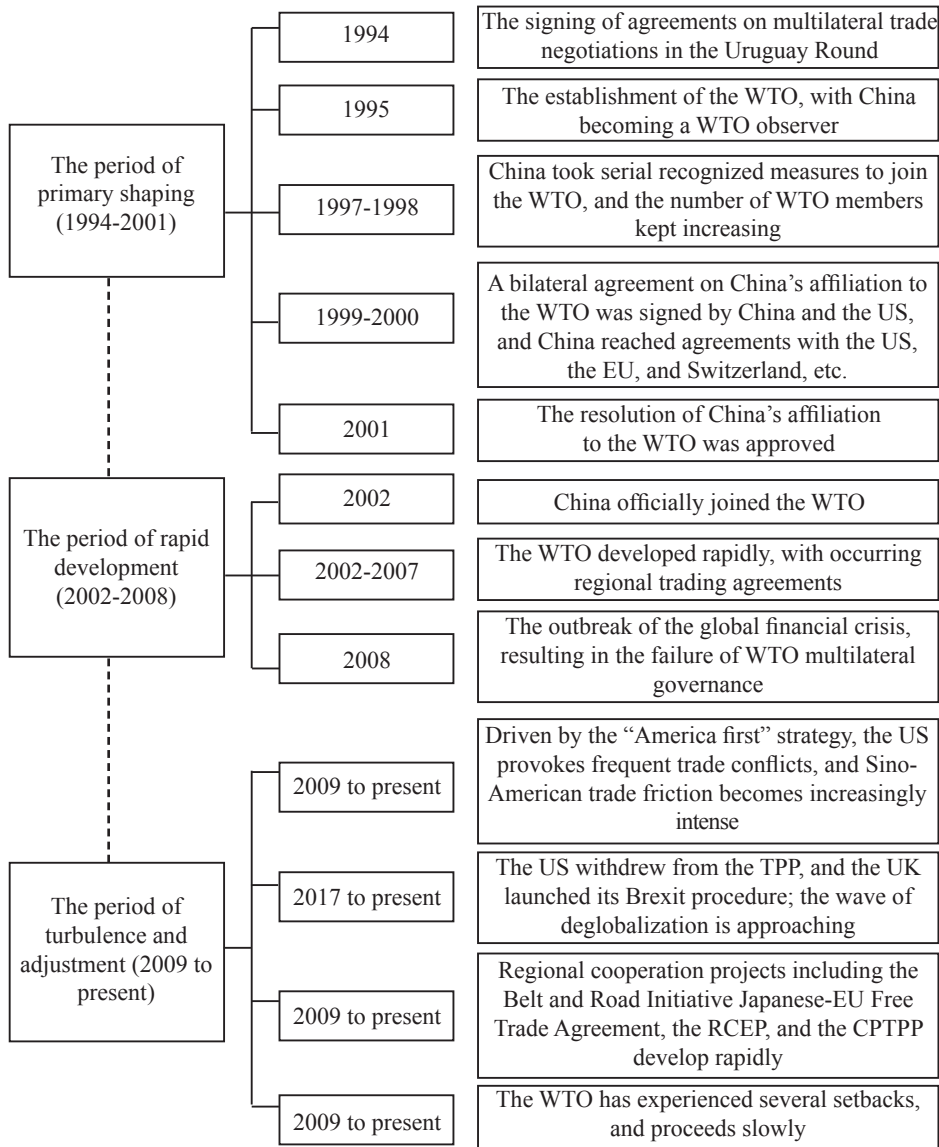
The international trade governance system is undergoing a rule-oriented transformation,

2 Aaditya Mattoo and Robert Staiger hold in their 2019 working paper under the National Bureau of Economic Research that the trade wars launched by the United States make the "rules-oriented" trade rules changing into the "power-oriented" negotiations on trade rules. See Aaditya Mattoo and Robert W. Staiger, "Trade Wars: What Do They Mean? Why Are They Happening Now? What Are the Costs?"

3 Ju Jiandong, "Impacts of Sino-American Trade Disputes and the Long-term Development Path of China."

which is in essence a reform of the global economic governance system led by major countries, an adjustment to the system for the rules of global resource allocation. At present, the international trade governance system is in a period of turbulence and adjustment (Figure 1). The United States intends to create an institutional environment maintaining its national

Figure 1 The Periods of Development of International Systems from the Uruguay Round (1994) to the Present



Source: Sorted out by the authors

and trade rules, and hindering the establishment of a new system of international economic that reflects the restructuring of the international system. As a result, the existing international trading system is characteristically oriented towards power. However, the liberalization of trade and investment is still an important foundation for the development of international trade and the recovery of world economy today. The liberalization and facilitation of trade and investment have strongly boosted the prosperity and development of economic globalization. The international trade standards, which feature extensive coverage, wide-ranging field, and high standard, have enhanced the overall awareness of trade rules and boosted the orderly development of global trade. The construction of serial organizations and trade networks, including the acceleration of the WTO reform, the enhancement of G20 governance capabilities, the improvement of the BRICS cooperation mechanism, and the promotion of RCEP and CPTPP cooperation, has enriched the hierarchy of structure and the diversity of subjects in international trade organizations. After a series of twists and turns, including global financial crises, the United States' repeated withdrawal from international cooperation, the Brexit, and the break of global value chains caused by the COVID-19 pandemic, the international trading system is expected to usher in a new dawn of its reform.

1. The sped-up improvement of international relations

Corresponding to trade protectionism and deglobalization trend, a series of violations against basic trade rules have seriously hindered the development of multilateral trading system, the competition and friction between developed and developing countries are being intensified, and the “North-South imbalances” are serious. Since the financial crisis, on the one hand, the trade liberalization led by the World Trade Organization has been severely hindered. Correspondingly, reform and reorganization are still rather difficult in a short term, and economic globalization is facing unprecedented challenges. On the other hand, promoting global governance by means of the mechanisms for multilateral cooperation such as regional trading agreements has become an important way to enhance global economic development at present, and the negotiations on large-scale economic integration and the construction of exchange platforms for international issues, including the agreements of the RCEP, the CPTPP, the TTIP, and the EJEP, have been accelerated. According to the data from the WTO regional trade agreement information system (RTA-IS), 401 bilateral and multilateral agreements on regional free trade had been reported to the WTO up to March 2021, which are either being implemented or to be implemented. The number of the same kind was only 94 in 2000. At present, most countries and regions in the world have joined at least one regional trade agreement, and the contents involved have extended from mere trade and investment to intellectual property and environmental protection. This has remedied the North-South imbalances in development to a certain extent, facilitated the North-South Dialogue, and relieved trade disputes.

Table 1 Signing of Global Regional Trade Agreements

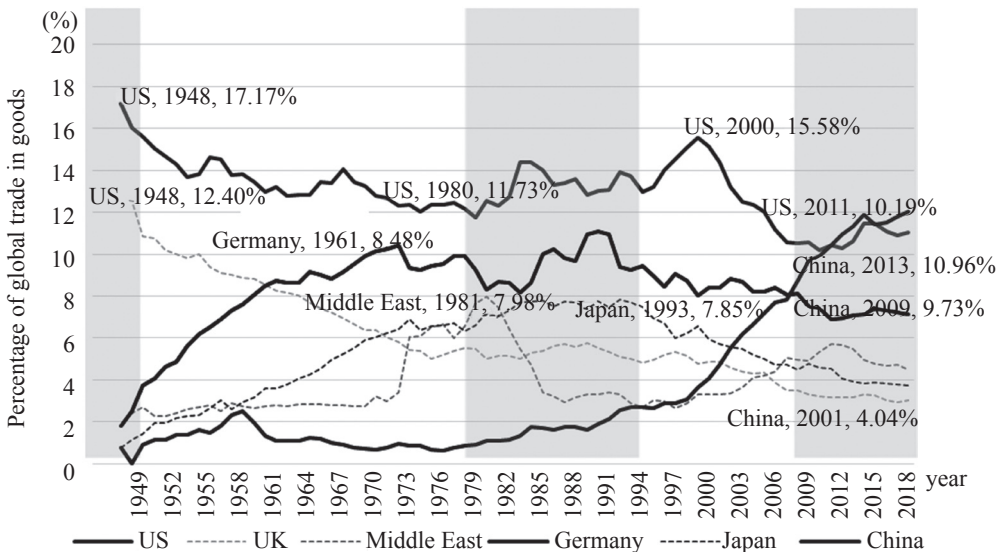
Status	Number	Type	Number of notifications since 2008
In force	365	168 trade in goods only 2 trade in services only	216
Notified and not yet in force	36	171 trade in goods and services	
Inactive	201	/	/

Source: Sorted out by the authors in light of data from the WTO Regional Trade Agreement Information System (RTA-IS)

2. *The power transition between major countries intensifies trade conflicts*

As historical experience has shown, changes in the relative strength of major powers will trigger adjustments in the global trading system. The UK adopted a unilateral trade policy to maintain its global leadership when it was faced with the impact of the United States and Germany in the 19th century. After World War II, the United States replaced the United Kingdom as a dominant force in the world, and established a whole set of governance systems, including the international trading system, to maintain its influence over the global economy through open multilateralism. After that, the European integration, the oil crisis, and the rapid development of Japan and China successively challenged the strength of the United States, and exerted an impact on the United States' position in the adjustment of the international trade order (Figure 2). That has brought about the adjustments to the United States' trade policies and its conceptions and methods of international trade governance.

Figure 2 The Development Process of Global Trade in Goods after World War II



Source: Calculated and drawn by the authors in reference to WTO data, https://www.wto.org/english/res_e/statis_e/merch_trade_stat_e.htm.

The winner of Nobel Prize in Economics Jagdish Bhagwati proposed the “Diminished Giant Syndrome” in his 1993 article, arguing that the unilateral trade policy the United States adopted when faced with the Japanese impact in the 1980s was alike what Britain did in the latter’s decline of power.⁴ In the upgrading of industrial structure, Japan gradually approached the position of the United States in terms of their industrial competitiveness, and the Japanese-US economic relationship has transitioned from complementary to competitive. The United States tried to restrain Japan’s development through its control over trade rules and by means of multilateral and bilateral cooperation. In the GATT Uruguay Round negotiations, the United States asked Japan to strengthen its agriculture and services and open its government procurement markets in case it discriminated against foreign suppliers. At the same time, the United States added the Super 301 provisions on the basis of the Section 301 of the Trade Act of 1974, threatening to impose sanctions upon Japan, and setting exclusive rules for Japan through a negotiation on structural agreement with the latter.⁵

In the 21st century, the US’s share of global trade in goods has gradually declined, and its dominance in the multilateral trading system is under impact. The trade policies adopted by Bush Jr., Obama, and Trump had different styles on the surface, but in essence were all committed to maintaining the dominant power of the United States by continuing to implement and construct American trade rules. In 2001, the Bush administration put forward the trade policy of “competitive liberalization” and proposed the main objective of reforming the global trade order: encouraging foreign countries to open their markets to American companies and farmers, urging foreign countries to adopt American commercial laws and regulatory norms, and pressing foreign countries to support the United States in the latter’s foreign and military policies.⁶ In the Doha Round of negotiations, the US was exposed to the impact of developing countries in terms of its dominant position. For example, in the debate on the compulsory licensing of medicines and patent protection between developing and developed countries, the General Council of the WTO passed a resolution on August 30, 2003, allowing least developed member countries which are in lack of or do not have production capacity, under certain conditions, import more easily cheaper generics produced under compulsory licensing.⁷ The United States then gradually turned to platforms such as regional trade agreements, took advantage of other economies’ high dependence upon it, and continued the promotion of such rules as high-level intellectual property, so as to remedy its failure in the multilateral field. The United States tries to promote American-style values and trade rules by signing free trade agreements and bilateral investment agreements with other member countries. The Obama administration tried hard to reach regional trade agreements such as the TPP and the TTIP, which are actually cross-regional, and advocated the high-level

4 Jagdish Bhagwati, “The Diminished Giant Syndrome: How Declinism Drives Trade Policy.”

5 Dong Yan, “Institutional Friction, Coordination and Institutional Opening-up,” pp. 79-86.

6 United States General Accounting Office (GAO), *International Trade: Intensifying Free Trade Negotiating Agenda Calls for Better Allocation of Staff and Resources.*

7 World Trade Organization, “Decision Removes Final Patent Obstacle to Cheap Drug Imports.”

trade agreements oriented towards the 21st century. The Trump administration withdrew from the TPP and threatened to withdraw from the WTO, but not from the competition of rules. Instead, it retreated to advance, resorting to tariffs and intensified negotiations on bilateral trade agreements to compensate for the weakening of the US power. By so doing, it attempts to maintain its benefits and dominance in the international trading system.⁸

The global governance rules and trading systems dominated by European developed countries and the United States have fallen under the impact of serial factors such as the global financial crisis and the global pandemic. As a result, their discourse power in the international community is being continuously weakened, while the developing economies, such as China, Russia, and India have seen the continuous increase of their international influence as their economic strengths are enhanced, and the centers of power are moving eastward. The competition for international discourse power between developed and developing countries has begun to transition from the traditional system of trade rules to deeper and higher dimensions such as investment liberalization, market openness. Especially in the recent years, the competition for ruling-making and dominance are becoming increasingly fierce in such cutting-edge technological fields as digital economy, trade in services, and 5G.

While the financial crisis continues and the global pandemic causes the further fragmentation of world multilateral system, European and American developed countries attempt to reshape the WTO to maintain their dominance over global economic order and further undermine the participation and decision-making power of developing countries. The key to the reform of global multilateral governance system lies in the solution of the problem of public goods supply, but the serial wrong-doings of the United States further enlarge the gap in global public goods supply and exacerbate the tension between China and America, and Europe and the United States.⁹ For instance, as many as 422 cases concerning the trade remedy measures were filed around the world in 2000. That set up a new record since 1995 and had an increase of 45.02 percent on year-on-year basis, with China accused most frequently in the cases of global trading frictions.

3. New positive factors in the reform of international trading system

The COVID-19 has caused an impact on the global economy at many aspects. As it is shown by WTO statistics, the year 2020 has saw a 5.3 percent drop of global trade in goods, the break of global value chains, the abrupt increase of trade cost, the challenge against trade facilitation and security, the difficulty in international investment, and the profound change in the pattern of international trade. After more than a long year of prevention and control work, the pandemic in most major economies around the world has been effectively controlled in the rough, and international trade has gradually recovered. The United Nations Conference on Trade and Development predicts that the global economic growth rate in 2021 will be 4.7 percent,

8 Craig VanGrasstek points out “international treaties were long used by Western countries to oppress China.” See *Trade and American Leadership: The Paradoxes of Power and Wealth from Alexander Hamilton to Donald Trump*.

9 Jiang Yuechun and Zhang Yuhuan, “WTO Reform and Prospect of Multilateral Trading System.”

higher than the expectation in mid-2020, and the steady recovery of global trade will promote the transformation of global trading system. All major economies have realized the urgency and importance of the governance of global trading system, and offered proposals for the WTO reform in succession. Their considerable emphasis on the construction of organizations for regional trade cooperation has greatly promoted the reform of global trading system.

The WTO reform has been suspended since the departure of its previous Director-General. Ngozi Okonjo-Iweala formally assumed the post of WTO Director-General on March 1, 2021 and attended the General Council meeting that day. Okonjo-Iweala is the first female Director-General since the establishment of the WTO, and her term of office will last until August 31, 2025. In addition to the COVID-19 and the three functions (negotiations, disputes and monitoring) of the WTO, she also promised to pay attention to the development in some other critical fields after her inauguration: to pay attention to and promote e-commerce negotiations, boosting the reform of multilateral trade rules and dispute settlement mechanisms, and to strengthen the role of the WTO Secretariat in providing services for the members of the WTO. The new Director-General will be helpful with the reform of global trading system.

II. China and the Reform of Multilateral Trading System

The WTO covers 98 percent of global trade at present, and is one of the important pillars for global multilateral economic governance. Since its entry into the WTO in 2001, China has turned from opening-up based on policies towards the opening-up based on rules.¹⁰ As it shown by many researches, the multilateral trading system centered on the WTO's institutional mechanism has had a significant influence on China's economy. After its entry into the WTO, China has sped up its integration with the global economic system, and greatly improved its international competitiveness in the manufacturing industry.¹¹ Import competition spurs the growth of the average total factor productivity in local enterprises, but has heterogeneous influences on the enterprises with different total factor productivity. The reduction of import tariffs, especially of the import tariffs on intermediate products and raw materials, can significantly increase the domestic value-added rate of China's exports.¹²

However, the WTO is also under the pressure of adjustment in terms of the design of mechanism, tardy in facilitating a new round of multilateral negotiations, and has failed to deal with such new issues as e-commerce and investment facilitation. After the 2008 world financial crisis, some developed economies began to show the trend of unilateralism and trade protectionism. Especially after the Trump administration came to power, the United States has

10 Xue Rongjiu, "The Significance, Function and Maintenance of China's Entry into WTO."

11 Wei Yueling and Zhang Hongsheng, "Trade Policy's Uncertainties, Export and Enterprises' Production Efficiency: An Analysis Based on PNTR Experience"; Jin Bei, Li Gang and Chen Zhi, "An Empirical Analysis of the International Competitiveness of China's Manufacturing Industry since China's Entry into WTO."

12 Jian Ze, Zhang Tao and Fu Yulin, "Import Liberalization, Competition, and Total Factor Productivity of Local Enterprises: A Natural Experiment Based on China's WTO Entry."

violated WTO rules several times, and applied its domestic laws to impose unilateral trade sanctions on the goods exported to the United States from many countries (regions) including China, the EU, Japan, and Canada. That has intensified trade frictions, and left the global trade in chaos. In July 2017, the United States submitted a proposal for “transparency reform” to the WTO. Since then, the EU, the Group of 20, China and other member countries have presented their proposals for reform, respectively. These proposals mainly have such topics as “the special and differential treatment of developing countries,” the improvement of Dispute Settlement Understanding, the enhancement of supervision over trade policies, the increase of transparency, and the recovery of negotiation function. The direction and development of WTO reform affects not only the construction of multilateral trading system, but also every member country. Therefore, they are important issues of global trade. Ngozi Okonjo-Iweala, who formally became the new WTO Director-General in March 2021, has clearly promised to promote the WTO reform, so it is expectable that the WTO reform will get its new opportunities.

1. Main points in the proposals for WTO reform

The central topics of the proposals on WTO reform are related to the vital interests of member countries. Judging from the proposals on WTO reform proposed by the current main members, there are considerable differences in their focuses and topics. However, all members have fully affirmed the importance of WTO. For example, the EU makes it clear in the “WTO Modernisation” proposal that the WTO has an irreplaceable role in promoting global free trade and fair trade. China has repeatedly stated that the WTO is “the cornerstone of economic globalization and free trade.” 13 countries and regions including Canada, the EU, and Australia released a joint statement in Ottawa, believing that the WTO has an important part to play. At the same time, all the existing proposals on WTO reform have something in common in terms of what all parties seek for and focus on. This something in common reflects the main concerns of all sides, and determines the specific directions of WTO in the future.

Table 2 Major Concerns in the Current Proposals on WTO Reform

Focuses	Reform proposals	Advice on reform
Issue of special and differential treatment concerning developing countries	The WTO Modernization Proposal put forward by the EU	Adjust the current distinction between developing countries and developed countries in the WTO, propose and encourage members to graduate and opt-out the “special and differential treatment” under the WTO framework, and give consideration to time-boundness and flexibility in terms of exit routes
	The 2019 Trade Policy Agenda and 2018 Annual Report presented by the US	The WTO’s treatment of development must be revamped to reflect current global trade realities
	The Joint Statement on Trilateral Meeting of the Trade Ministers of the United States, Japan, and the EU	Further reform and more commitment are required in terms of the developing country status
	China’s Proposal on WTO Reform	Respect the right of special and differential treatment of developing members

Improving the Dispute Settlement Understanding (DSU)	The 2019 Trade Policy Agenda and 2018 Annual Report presented by the US	WTO dispute settlement must fully respect members' sovereign policy choices
	China's Three Basic Principles and Five Propositions on WTO Reform	Resolve the crucial and urgent issues threatening the existence of the WTO
	China's Proposal on WTO Reform	Break the impasse of the appointment process of appellate body members
	The Joint Communiqué of the Ottawa Ministerial on WTO Reform presented by Canada and other 12 countries	Emphasize the urgent need to unblock the appointment of Appellate Body members, safeguard and strengthen the dispute settlement system
	The WTO Modernization Proposal put forward by the EU	Push forward the reform of the Dispute Settlement Understanding, improve such mechanism and enhance its efficiency
Strengthening the supervision over Trade policies and enhancing transparency	The WTO Modernization Proposal put forward by the EU	Increase the transparency of the WTO and improve its function of monitoring and reviewing trade policies
	The Joint Communiqué of the Ottawa Ministerial on WTO Reform presented by Canada and other 12 countries	Strengthen the monitoring and transparency of members' trade policies which play a central role in ensuring WTO members understand the policy actions taken by their partners in a timely manner
	China's Proposal on WTO Reform	Tighten disciplines to curb the abuse of national security exception; tighten disciplines to curb unilateral measures inconsistent with WTO rules; improve the members' compliance of notification obligations
Reinvigorate the negotiating function	The Joint Communiqué of the Ottawa Ministerial on WTO Reform presented by Canada and other 12 countries	Reinvigorate multilateral negotiations, strengthen the establishment of new rules including non-market-led policies, policies on industrial subsidies and state-owned enterprises, and rules on forced technology transfer, so as to enhance the fair competition among all economies
	China's Proposal on WTO Reform	Accelerate negotiations on fisheries subsidies, advance joint initiative on trade-related aspects of E-commerce in an open and inclusive manner, and promote discussions on new issues

Source: Sorted out by the authors

2. Issues of special and differential treatment

The WTO is at a crossroad of reform, and the status of developing countries and the corresponding adjustments to the “special and differential treatment” system are the focal issues of debates. In the Doha Round of negotiations, underdeveloped countries are concerned about whether the WTO can facilitate their development, while developed countries are interested in whether the WTO can become a stable, transparent and predictable trading system, and the entire international community expects China and other developing countries

with strong economic power to undertake more obligations in the WTO. In the negotiation on the Trade Facilitation Agreement (TFA), China is actually assuming obligations approximate to those of developed countries step by step. With the further enhancement of its economic strength, China will play a more important leading role in the global trading system, and will surely undertake more obligations.

The disparity in status between developing and developed countries as WTO members is mainly revealed through the provisions of “special and differential treatment,” which means that within the multilateral trading system, a certain developing country as a WTO member can get relatively preferential treatment within a certain range and on certain conditions in reference to its own special circumstances and needs. These provisions are distributed in various WTO agreements, including the General Agreement on Tariffs and Trade (GATT) 1994, the Technical Barriers to Trade (TBT) Agreement, the Agreement on Subsidies and Countervailing Measures, the Agreement on Agriculture, the General Agreement on Trade in Services (GATS), the Understanding on Rules and Procedures Governing the Settlement of Disputes, and the Agreement on Government Procurement (GPA), etc. 139 clauses are involved in total, and can be roughly divided into 6 categories:

1) The provisions to increase trade opportunities for developing countries. The WTO has continued the provision of preferential treatment related to market access for developing countries given in the 1947 General Agreement on Tariffs and Trade (GATT). 2) The provisions requiring developed countries to protect the interests of developing countries. Some provisions in the agreements require developed countries to take into account the special interests of developing countries when adopting trade measures. 3) The provisions to allow certain flexibility to developing countries in the implementation of multilateral trade rules and disciplines. For example, in light of the agricultural agreement, developing countries can cut off a few tariffs and subsidies, and can maintain general investment subsidies and pay agricultural input subsidies to the farmers with low incomes or desperately in want of resources. 4) The provisions to give developing countries a longer transition period. Except for the Anti-Dumping Agreement and the Agreement on Pre-shipment Inspection, all the other agreements provide developing countries with a longer implementation period. 5) The provisions for technical assistance. And 6) The provisions about the special and differential treatment for least developed countries.

From the standpoint of developing countries, the existing WTO agreements have two types of provisions for special and differential treatment. Of them, some provisions require developed countries to fulfill through positive actions, including preferential market access conditions for the export products of developing countries, for example, the adoption of lower tariff levels to allow the products of developing countries enter the domestic market of developed countries; the offer of technical and financial assistance to developing countries, etc. Other provisions allow developing countries to undertake different obligations, for instance, developing countries are allowed to be exempt from some multilateral trade

disciplines, provide protection for domestic industries, and enjoy a longer implementation period.

The Trade Facilitation Agreement determines the obligations of each member country by means of classification.

Table 3 The Acknowledgement of Each Country's Obligations in the Trade Facilitation Agreement

	Traditional ways	Trade facilitation agreement
	Developing countries are treated on an exceptional basis and can choose to withdraw from the conventional trading system set up by developed countries	Developing and developed countries are both treated as reciprocal members in multilateral trade negotiations
Obligations	Non-reciprocity	Reciprocity
	Self-identity	Self-identity
Enhancing the ability to implement a single agreement	An open end—Graduation clause	A closed end
	The Uruguay Round: transitional period	Match the implementation of each provision with the reception of technical assistance, capacity building, etc. In reference to the evaluation

Source: Sorted out by the authors

In the General Agreement on Tariffs and Trade and the World Trade Organization, developing countries have their status determined on the basis of each member's own choice, and a member country can freely enjoy a certain status if it is not formally objected to by any other members. The identification of developing countries by the WTO has the following problems in practice: First, the degree of economic development in a country is dynamically changing; second, the meaning of development has multiple dimensions, and there may be various imbalances in the development of a country; and third, there are disparities in the level of economic development between developing countries, and more detailed classification is necessary.

3. *China is proactive to cope with the pressure of adjustment to the "developing country status" in the WTO*

China is assuming more obligations to respond to the concerns of developed countries on the basis of its own economic level and ability. China has greatly developed in recent years, exceeding underdeveloped countries to a certain extent. So, it can hardly continue to enjoy the "special and differential treatment" in the WTO in the existing manner anymore. In fact, China has made some commitments like those of developed countries in the Information Technology Agreement (ITA) product expansion negotiations and some other fields, following the principle of "one case, one discussion" in various agreements to undertake corresponding obligations. For example, in light of the provisions allowing developing countries enjoy

certain flexibility in implementing multilateral trade rules and disciplines, and of the provisions involving “special and differential treatment” in such agreements as the Agreement on Subsidies and Countervailing Measures, the General Agreement on Trade in Services, and the Agreement on Government Procurement, China continues to ask for the treatment for developing countries, but is willing to undertake more obligations in the fields where it has achieved better development.

China is expanding its influence in global trade governance and deepening cooperation with developing countries. The traditional trade rules are dominated by the European and American countries which have strong economic strengths. In recent years, China has seized a decisive position in the global economy and trading pattern. Objectively, the adjustment to the contrast of economic strengths of all countries provides a basis for the adjustment to the dominance in the formulation of trade rules. From the perspective of global influence, China has a huge middle class, which has enormous potential for market demands. In the trading field, imports reflect a country’s influence on the international market. The imports are made up of the import of intermediate products and the import of final products. The former reveals the ability a country as the center of the value chains to connect, while the latter the attractiveness of a country to the demand market. In recent years, China has shown heavier dependence on the trading with the developing countries and regions other than the United States, Europe, Australia, New Zealand, Japan, and South Korea, which is significantly greater than that on the “Five Eyes Alliance” (the United States, the United Kingdom, Canada, Australia, and New Zealand). The economic and trading exchanges between China and other developing countries are getting closer, and there is still room for further expansion in the future.

China is continuing to support the WTO in the latter’s promoting development and capacity building, and enhancing the development of least-developed countries. The issue of development is an important area the WTO is concerned about, and the special and differential treatment is the core content of the issue of multilateral development. The provisions to promote the development of developing countries in the WTO agreements include giving these countries longer periods to apply agreements and fulfill commitments, increasing their trading opportunities, supporting them to increase their own trading capacities, and improving technical standards for the dispute settlement mechanism. The WTO has established hundreds of trade cooperation mechanisms to promote the development of developing countries. For example, it has set up regular training courses for government officials, and the Aid-for-Trade Initiative is of great significance to the enhancement of trading capacities of developing countries. China should continue to support the WTO to promote development and capability improvement.

III. China and Regional Economic and Trade Cooperation

1. New trends in regional economic and trade cooperation

In the general environment where deglobalization and trade protectionism prevail,

promoting the construction of regional trade agreements (RTAs) is an important way to reform the international trading system. A stimulation analysis has been made about the extreme case of Sino-US trade decoupling, that is, the total lack of trade. As the result shows, China would see its GDP decrease by 8.83 percent, manufacturing employment by 6.008 percent, export trade by 18.41 percent, and import trade by 6.912 percent; the US would suffer the drops of GDP by 2.389 percent, of manufacturing employment by 3.756 percent, of export trade by 9.323 percent, and of import trade by 17.063 percent; and the world economy as a whole would witness the reduction of GDP by 1.847 percent, of manufacturing employment by 1.31 percent, and of import and export trade by 3.449 percent.¹³ Due to the failure of the multilateral trade governance mechanism, RTAs as the important carriers of international economic cooperation under the shutdown of the global trade dispute mechanism have attracted great attention from major economies in the world. China has always attached great importance to the influence of RTAs and been active in promoting the diversified development of the reform of international trading system through regional trade agreements. For example, the member countries of the CPTPP will shift their investments in the labor-intensive industries from China to Southeast Asian countries such as Vietnam, Malaysia, and Brunei, and China will have to prepare itself for this situation; whereas the agreements under the RCEP will benefit the development of China's foreign trade, change the situation of Asia-Pacific economic and trade cooperation, and help alleviate the adverse effects of Sino-US trade frictions. China needs to actively adjust its industries to improve its domestic market competitiveness.

In the general context that the WTO's governance capacities of multilateral trading system have been weakened and exerted a serious impact on the world's economic development, RTAs have become a globally recognized new mechanism for trade liberalization. It has been accepted and used in the process of regional economic construction by more and more countries, so as to offset the negative impact caused by the failure of the WTO's trade dispute settlement mechanism. RTAs are favorites with various economies due to their high degree of flexibility and controllability. The large-scale RTAs that have been reached are mainly in the Asia-Pacific region, the Americas region, and Western Europe, covering most of the world's major economies. The conclusion and effects of some RTAs have directly affected the pattern and future direction of economy in relevant regions or even the whole world. One typical example is the implementation and expansion of the CPTPP. Since its first ministerial meeting held in Tokyo, Japan on January 19, 2019 to discuss the affiliation of more countries, the CPTPP has begun to show the clear trend of expansion. The construction of the CPTPP has important practical significance. On the one hand, it will greatly enhance the level of regional trade liberalization, and hence become a leader in the new round of international economic and trade rules, playing the role of an "engine" for global trade; on the other hand, the affiliation of new members is bound to have a huge impact on other non-member countries,

13 Li Chunding, He Chuantian and Lin Chuangwei, "Evaluating the Effects of China's Countermeasures to China-US Trade Frictions."

and may even affect the process of WTO reform. In addition, the Regional Comprehensive Economic Partnership Agreement (RCEP), initiated by the ten ASEAN countries and inviting China, Japan, South Korea, Australia, and New Zealand to join, was also formally signed on November 15, 2020; the China-EU Comprehensive Investment Agreement (CAI), an investment agreement involving the largest number of member countries at one time was formally announced to have been reached on December 30, 2020; the US-Mexico-Canada Agreement (USMCA) replaced the North American Free Trade Agreement (NAFTA) and formally entered into force; and the EJEPA has begun to formally take effects. In a word, a series of regional trade agreements and multilateral or bilateral investment agreements have become important engines promoting the development of free trade.

Table 4 Specific Contents of Related Agreements

Relevant agreements	Dates of signing	Main contents	China's roles
CPTPP	December 30, 2018	This agreement inherits some contents of the TPP and includes provisions concerning environmental protection, labor, data flow, and state-owned enterprises that were first written into a trade treaty	Not a participant
RCEP	November 15, 2020	A free trade agreement with a unified market for 16 countries is established by cutting tariff and non-tariff barriers	An active participant
CAI	December 30, 2020	The scales and types of bilateral investment between China and EU	An active participant
USMCA	January 29, 2020	There are 34 chapters covering market access, agriculture, investment, intellectual property, digital trade, rules of origin, trade remedy, dispute settlement, etc.	China is not part of this, and Article 32.10, which sets out the conditions for building free trade agreements with non-market economies, is known as the "poison pill" article mainly aimed at China
EPA	July 17, 2018	Tariff issues mainly involving bilateral red wine, cheese, beef, chocolate, vehicles, vehicle car parts, and color television sets	China is not a participant, but some provisions involve extra tariffs on Chinese products

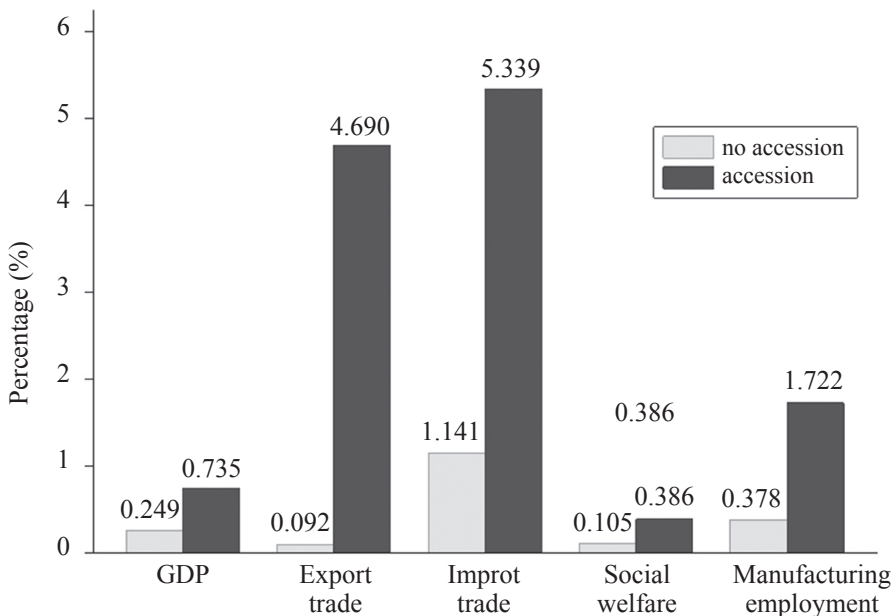
Source: Sorted out by the authors

2. The effect of china's participation in regional economic and trade cooperation

As the CPTPP officially enters into force, some high-standard mega-regional trade agreements (Mega-RTAs) aimed at promoting economic integration in the Asia-Pacific region is implemented. The subsequent question is how the taking effect of the CPTPP will impact on China, other member countries, and other major economies; at the same time, China as the second largest economy in the world will exert a positive impact on the economy of specific countries and the entire world if China joins the CPTPP; and China's accession to it

is feasible and operable. The CPTPP has already started negotiations on its expansion, and many countries have expressed their interest in the accession to the agreement. China can grasp this opportunity, taking a “free ride” by joining the negotiation on expansion. Among the members of the CPTPP, both Australia and New Zealand expressed their expectation for China’s agreement affiliation, so that it could fill the blank left by the United States. That indicates China has a good foundation for its accession to the agreement, let alone that the CPTPP has lower-standard terms than the TPP, which are more acceptable for it. China will have an increase of overall benefits after its accession to the CPTPP. Specifically, it will expect its import trade to increase by 5.339 percent, its export trade by 4.69 percent, its manufacturing employment by 1.722 percent, its GDP by 0.735 percent, and its social welfare by 0.386 percent (Figure 3). Obviously, China would have a great increase of positive effects in comparison with the case of no accession to the agreement.

Figure 3 A Comparison of Economic Effects before and after China’s Access to the CPTPP



Source: Li Chunding *et al.*, working paper titled “The Quantitative Simulation and Policy Implications of CPTPP Economic Effects.”

All member countries can benefit from trade agreements; in comparison, Vietnam, Brunei, and Malaysia gain more profits than other countries, next to these three are Mexico, Peru, Chile, and Canada, and Australia, Japan, New Zealand, Singapore, and China obtain slightly less interests. Compared with the case without China’s accession, all members have had the increase of benefits, this is a proof that China’s accession to the agreement is beneficial to all

the agreement members. On the other hand, China's accession to the CPTPP has caused more negative impact on some non-members of the agreement, and most non-member countries as a whole have suffered more losses although a few have managed the increase of incomes. In particular, countries such as Papua New Guinea, the Philippines, Qatar, Kuwait, and Oman have suffered from greater negative impacts, and the overall world economy has shown a conspicuous growth in comparison with the case without China's accession to the CPTPP.

IV. New Issues of International Rules

The international academic community classify international trade rules mainly in accordance with relation between regional integration rules and the WTO, dividing provisions in the RTAs into the type of WTO-plus (provisions included in the WTO, but more radical than WTO regulations), and the type of WTO-minus (provisions not included in the WTO).¹⁴ The question that it responds to is whether RTA has promoted the development of the WTO. On the basis of China's angle, we here take the challenges and opportunities that China faces as a starting point to reclassify and review new rules in the existing regional trade agreements, and especially consider the new development of international trade rules in the recent two years. In the following table we make a horizontal comparison between the current major high-standard trade and investment agreements that have been reached on a global scale, which include CPTPP, USMCA, US-Korea Free Trade Agreement (KORUS), EJEPA, and Canada-EU Comprehensive Economic and Trade Agreement (CETA). From the perspective of rule competition, these new agreements consist of the following major points:

1. The issues of in-depth integration and structural reform

Such issues achieve a relatively high level of marketization by adjusting domestic policies, including government procurement, competition policies, intellectual property, and environmental provisions, as well as the contents related to state-owned enterprises and subsidies. The provisions about government procurement aim to increase the export of trade in goods and services between member countries, and promote the further opening of the domestic markets of each country. They usually stipulate through attachments the coverage of provisions on government procurement that have been committed by each country. The competition policies emphasize that procedural fairness shall be ensured in the implementation of competition laws, so as to establish or maintain a legal system for member countries, and provide regional standard guidelines to ensure that commercial fraud is prohibited. The rules about intellectual property constantly improve the protection of intellectual property, strive to promote the trade of and investment in innovative products and services, and make new regulations in such fields of internet services, pharmaceuticals, and so forth. At the same time, they also provide for a powerful enforcement system. As for the matter of laborers, strict and

14 <https://datacatalog.worldbank.org/dataset/content-deep-trade-agreements>.

compulsory labor standards are applied, which usually require the compliance with the core requirements of the International Labor Organization on labor rights, prohibit the relaxation of domestic labor standards (the principle of non-destruction) aimed at the promotion of investment and trade, and establish related mechanisms for dispute resolution. With regard to the environmental aspect, it is required to establish a mechanism for enforceable commitment to deal with environmental issues.

The “State-owned Enterprises and Designated Monopolies” is a newly added chapter in the CPTPP, which relates bilateral and regional trade agreements with domestic systems and reforms, and regulates the behaviors of governments and enterprises of member countries. The bilateral agreements the EU signed by the EU respectively with Japan and Canada included separate chapters on subsidies. At the same time, rules about subsidies have increasingly become the focus of China’s conflicts with the United States, Japan, and Europe. Since 2018, the United States has repeatedly questioned China’s industrial policies and subsidies through the WTO, and at the same time, the United States, Japan and the EU have issued a joint statement on trilateral meeting on several occasions, promote the conclusion of new rules on subsidies and state-owned enterprises in order to impose restraints through rules upon the “third party market” such as China.

2. New rules for future-oriented digital globalization

Faced with the unstable growth of global trade and the increasing challenges from developing countries, developed countries attempt to establish new rules based on a future competition model while striving to maintain their superiority through stricter rules. The chapter on e-commerce in the CPTPP stipulates the framework of new rules for the development of digital trade in the 21st century, and upgrades the provisions on online consumer protection and free cross-border transfer of commercial information from non-mandatory provisions to mandatory ones. They have also regulated the supervisory framework for domestic electronic transactions, protection of personal information, location of computing facilities, unsolicited commercial electronic messages, and source code. The US-Japan Digital Trade Agreement is more committed to creating a leading rule system. It exempts cross-border sales of digital products from tariffs. In addition, it does not ask a government to demand the setting up of data-storage servers, nor require enterprises to publicize algorithms and “source code,” etc. That is intended to promote the development of digital economy and maintain a country’s own leading position in this field.

3. The high-level rule of regulatory consistency

The important international academic research results recently published by Gene M. Grossman, Phillip McCalman and Robert W. Staiger point out that the current trade agreements has undergone significant changes in form, and are more similar with a regulatory integration agreement rather than a trade liberalization agreement.¹⁵ The agreements

15 Gene M. Grossman *et al.*, “The ‘New’ Economics of Trade Agreements: From Trade Liberalization to Regulatory Convergence?”.

emphasize regulatory consistency between various countries, and impel all parties to establish the mechanism for effective cross-sectoral consultation and collaboration, so as to improve the regulatory consistency. In this way, they are to ensure business entities in the markets of member countries to enjoy an open, fair, and predictable regulatory environment. This indicates the trend that the consistency of domestic regulation in various countries expands to the consistency of regional regulation in member countries. The rules about transparency, anti-corruption, exchange rate and so forth also show the characteristics of coordinating domestic rules.

In addition, the CPTPP has made regulations with respect to cooperation, capacity building, and development. This displays the rule about the cooperation between member countries of the agreements under the condition of diversity, with respect to countries at different stages of economic development.

V. Reconstruction of International Economic and Trade Rules

1. The reform of dominance over rule-making

From the perspective of dominance over the making of international economic and trade rules, emerging market economies have their power of discourse increasing with the growth of their political and economic power in the processes of negotiation and voting. Therefore, the dominance over the making of international economic and trade rules has become a prey in multi-party games, and as the gap in strengths between developed countries and emerging economies decreases, the struggle for such dominance is growing more intense.¹⁶ On the one hand, the “non-neutrality” of international economic and trade rules will not change, and dominators expect to get more “dividends” concerning rule-making, and developing countries necessarily take into account their own requirements; on the other hand, developed countries have begun their new adjustment to the identification of developing countries, to the principle of thus involved most-favored-nation treatment, and to the principle of differential treatment; and especially, the United States has constantly brought about new proposals for re-identifying developing countries, reducing the special and differential treatment of member countries of the WTO, and canceling industrial subsidies and state-owned enterprise subsidies. The game of power over the making of international economic and trade rules will continue afterwards, and this also bring about new uncertainty to the formulation of new international economic and trade rules.

2. The reform of rule-making standards

The high-standard new international economic and trade rules represent the direction of future development of global economic integration. Take the CPTPP as an example. The CPTPP is the successor to the TPP, which was once regarded as a free trade agreement with

16 Zhang Monan, “The Upgrading of the Global Economic and Trade Rules System Is Accelerating.”

the highest standards. It is precisely because of the excessively high standard of the TPP, and of the even stricter design of origin criterion in the CPTPP, that not only new changes have happened to the standards of identification, but also some new requirements for sensitive products have been set up.¹⁷ In the field of labor affairs and environmental protection, the CPTPP also has strict requirements, adding many high-standard new provisions under the conditions that such requirements have been arranged into separate chapters. For example, international trade is linked with labor standards to further guide the development of labor standards in free trade. In response to the standards of environmental protection, the CPTPP has formulated strict provisions on environmental protection, stipulated the implementation of environmental laws, the assessment of environmental impact, consultation and negotiation, and the mechanism for dispute settlement, and provided necessary explanations on the scope and obligations of environmental protection. However, the over-emphasis and full implementation of high-standard rule-making may give shocks to the markets of developing economies.

3. Reconstruction of the contents of rules

From the point of view of contents, the reconstruction of international economic and trade rules manifests itself in the extension from “border measures” to “post-border measures.” Most of the traditional economic and trade rules are mainly targeted at measures concerning the investment in goods or services across customs borders, for example, such border measures as tariffs, quotas, and non-tariff cuts. Compared with traditional international economic and trade rules, the current trade agreements and economic and trade rules cover a wider range of contents, including not only measures directly related to trade, but those indirectly or weakly related to it. For example, the currently high-profile industrial policies, intellectual property protection, investment policies, environmental policies, etc., are all post-border measures, which are major points in today’s negotiations on international economic and trade rules. For instance, the EPA makes a clear instruction on investment liberalization, explicitly restricting investors’ obtainment of market access. In addition, with the globalization of investment and trade, and with the globalization of value chains, developed countries are in an urgent need to break the domestic regulatory barriers of developing countries so as to prepare for multinational companies to obtain competitive opportunities, market resources, and regional dominance. Now that major developed countries and some developing countries have reached a lower level of tariff barriers already, the future application of economic and trade rules will inevitably shift to a country’s post-border measures and extend to the virtual economy.

4. Reconstruction of the idea of rules

From the perspective of the idea of rules, traditional international economic and trade rules emphasize free trade; taking the scale of market as a guide, it pays much attention to

17 Wang Chunli and Feng Li, “The Impact of Restructuring of International Economic and Trade Rules upon China’s Opening-up and Coping Strategies.”

tariff concessions and market access. But the new round of restructuring of international economic and trade rules highlights national interests, and stresses the status of a country in the international division of labor and the maximization of interests. This will bring about changes in the idea of rules: The former idea of rules pursuing free trade will gradually evolve towards fair trade, and this is mainly manifested in investment policies and competition policies, etc. The negative list and pre-establishment national treatment are just the embodiments of such investment policies. Existing large-scale RTAs, including the CPTPP, all adopt the negative list model, and implement pre-establishment national treatment in the service sector, in order to hold out its commitments of providing the circumstance of fair competition for multinational service organizations and cross-border trade in services. For some developing countries, the attention still focuses on free trade, while developed countries and emerging economies advocate the replacement of free trade with fair trade. The trade ministers of the United States, the EU and Japan have issued joint statements on several occasions, requesting the WTO to reform the practice of “non-market economy” that is market-distorting and unfair, and impose more restraints through disciplines. In the future, developed countries may possibly take fair trade as a pretext to incorporate more contents expressing their own wishes and interests into international economic and trade rules.

VI. China’s Participation in the Reconstruction of Economic and Trade Rules

With the rapid development of China’s economy and the major changes in the world economic structure, China has greatly improved its international influence and discourse power. Therefore, China should change its attitudes and practices of passively integrating into, adapting to, and accepting international economic and trade rules, and actively participate in the reconstruction of international economic and trade rules together with other countries. On the whole, China’s participation in the reform of international economic and trade rules is characteristically a gradual process, that is, it evolves from using the existing system of rules to seek its own interests to actively taking part in the system and playing a constructive role in it. At present, China is changing from the role of a mere participant to that of a manager undertaking more obligations in the governance of global economic and trade rules. How a country participates in the rule-making depends on its position in the power structure. Based on the heterogeneity of rules, this section summarizes the different ways China joins the reconstruction of economic and trade rules.

1. Taking part in the rule-making

The establishment of rules means to explore some new international system in new fields. The key to competition among future major powers lies in technology and innovation. Under the new situation that traditional trade is transiting to digital trade, the economic and trade rules related to digital economy have become a focus in the new round of making

of international trade rules.¹⁸ Especially under the influence of the pandemic, global trade shrinks sharply, and digital economy has become a new engine for economic growth. In recent years, China has paid more and more attention to the rules of global digital trade, and the participation in the making of rules about digital trade will be critical to the construction of a new round of international economic and trade rules. Concerning digital trade, an emerging field, path dependence has a weak influence because it is not bound by the original rules. China's participation in the formulation of digital trade rules have the following characteristics: First, it takes advantage of its favorable position in the field of e-commerce platforms, and clearly adopting the concept of "e-commerce" in relevant rules. Also, it holds a cautious attitude toward the free flow of cross-border data and the localized data storage. Meanwhile, it has made some progress in promoting e-commerce through WTO negotiations and free trade agreement negotiations.

2. Promoting the reshaping of rules

The reshaping of rules is a kind of innovation in rules, but such innovation does not formulate new rules. It is not the demise or replacement of existing rules; rather, it is that new actions endow existing rules with some new contents in the process of expansion, so that the contents of such rules are enriched and improved.¹⁹ Take the rules of competitive neutrality as an example. Developed economies have achieved a consensus with respect to rules in this field, and try to impose it on developing countries in the new trade agreements dominated by the United States and European countries. Therefore, China needs to strengthen the reshaping of rules in the sense of competition policies. The reform of state-owned enterprises in China does not contradict the related requirement of the rules of competitive neutrality in general, and China should accelerate its independent reform, break with the constrictions of rules, and transform external pressure into an impetus for the reform of economic system. At the same time, China should strengthen its coordination and cooperation with other developing countries, and improve the applicability and inclusiveness of related rules.

3. Strengthening the coordination of rules

The coordination of rules here means to strengthen the coordination of rules, standards and practices between all countries. In particular, the rule of regulatory consistency is an important one for countries to carry out in-depth cooperation and enhance the potential for cooperation. It is aimed at impelling all economies to carry out good domestic regulation, promoting regulatory consistency, and strengthening cooperation on regulation, so that the enterprises of a certain country can enjoy an open, fair and predictable regulatory environment in the international market. The rule of regulatory consistency will help China improve the level of its national governance, and has a positive effect on regional free trade and economic

18 Wang Chunli and Feng Li, "The Impact of Restructuring of International Economic and Trade Rules upon China's Opening-up and Coping Strategies."

19 Yuan Zhengqing, Li Zhiyong and Zhufu Xiaofei, "China and the Reshaping of International Human Rights Norms."

growth. This principle has been gradually embodied in the reform of pilot zones of free trade in various regions. However, the innovation in the system of pilot zones of free trade has not yet got to the practice of good regulation and the assessment of impact of regulation, both of which are in line with the international community. In this area, therefore, the coordination of rules can be strengthened to construct a good business environment. However, China is still unable to be fully consistent with the requirement of developed countries in terms of the rule of regulatory consistency. Therefore, it should advocate effective regulation, rather than simply decrease or increase regulation. Moreover, it should emphasize the independence of domestic regulatory power, and promote the coordination of rules in an orderly manner while giving consideration to disparities in the economic development of different countries.

4. Adapting to the rules of reciprocity

The proposals for WTO reform brought forward by developed economies mention in many places declare that some developing countries, including China, have gained unfair competitive advantage by means of special and differential treatment, that with the enhancement of their international competitiveness, developing countries should bear more obligations, and that the developing countries with a higher level of development should be equally treated as developed ones in terms of market opening and regulatory commitments. China has achieved rapid economic development in recent years, but will face increasing pressure if it continues to enjoy the special and differential treatment in the current way. Because it is in the stage of a developing country, China should, under the prerequisite of insisting that the WTO should pay attention to the development of developing countries and oppose direct reciprocity, make some pre-plans for the WTO reform of member country classifications and certain responses to the reform plans proposed by developed countries. At the same time, China will assume greater obligations in the global economic and trade governance system, continue to support the WTO in promoting development and capacity building, and help the WTO to adapt to the new situation and develop through reforms.

5. Remedying rule deficits

The rule deficits here means that hegemonies are unwilling to assume more international obligations when their power decline, so that rule deficits occur in some fields, especially in the field of development. With respect this situation, China should promote at the level of regional cooperation the construction of rules in the field of development, so as to remedy rule deficits. For example, in the context of the COVID-19 pandemic, China has actively taken part in the economic and trade cooperation related to the fight against COVID-19 in the Asia-Pacific region, presenting structural proposals and suggests in the Statement on COVID-19 by APEC Ministers Responsible for Trade and the ASEAN-China Economic Ministers' Joint Statement on Combating the Coronavirus Disease (COVID-19), the Enhancing ACFTA Cooperation, and other relevant documents for related regions and countries to cope with the pandemic.

Faced with changes in international trade, China should adopt multiple paths, including

independent opening up, bilateral cooperation, regional cooperation, and multilateral coordination, to actively join the innovation in international trade governance.

Notes on Authors

Dong Yan, PhD in Economics, is Professor and Doctoral Advisor at the University of Chinese Academy of Social Sciences, and Research Fellow at the Institute of World Economics and Politics (IWEP) and Director of the IWEP Office of International Trade Research of the Chinese Academy of Social Sciences. Her works include *Applied General Equilibrium Modeling of China's Trade* (Beijing: China Social Sciences Press, 2015); *Facing the China-US Trade Conflicts* (Beijing: China Social Sciences Press, 2021); and *Foreign Academic Research Frontier of International Trade* (Beijing: Economy and Management Publishing House, 2020). E-mail: dongyan@cass.org.cn.

Li Chunding, PhD in Economics, is Professor and Doctoral Advisor at the College of Economics and Management, Director of the Department of Economy and Trade, and Director of the Institute of International Economic Research, all under the China Agricultural University. His research focuses on international trade theories and policies, agricultural product trade and agricultural internationalization, and global economic governance. He has published many academic papers in Chinese and English journals both at home and overseas, including *Journal of Comparative Economics*, *The World Economy*, the *China Economic Review*, *Economic Research Journal*, and *The Journal of World Economy*. E-mail: lichd@cau.edu.cn.

Notes on Translator

Huang Deyuan (黄德远) is a freelance translator. E-mail: one-sisyphus@hotmail.com.

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