

CHINA, THE RELUCTANT WTO REFORMER

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INTRODUCTION

FRANÇOIS GODEMENT

China's 2001 entry into WTO was an epochal step in China's reform and opening up. **As the transition ended in December 2016, China had skyrocketed to become the world's first trading nation.** It is not hard to understand why Chinese sources (described in this issue by Pierre Sel) recognize the benefits to China from WTO membership.

In 2017, Donald Trump came to power with a program to restore the pre-eminence of the US economy. Mammoth trade deficits with China are an obvious target. Europeans, as the sources seen by Mathieu Duchâtel politely tell it, are experiencing "growth pains" in their relationship with China, now a global competitor in many sectors.

The formerly "developing" Chinese economy is reaching mid-level income levels (nearly 10,000 USD per capita GDP in 2018), with several hundred million Chinese close to European levels of income. Yet it has not become a market economy. It is an even more state-led and politically driven economy, where huge saving rates are captured by state banks for state-owned enterprises. This is capital that fuels growth and subsidizes the industries of the future. Our Chinese sources, as seen by Viviana Zhu, are not blind to the changing perceptions from the outside world. Yet, **China remains as a birth right the status of a developing economy under present WTO terms. The asymmetry of rules that this statute provides seems unshakable.**

This makes WTO the jewel on the crown for China. There is some awareness of a need for "adjustment". But what concessions is China ready to accept? Between the lines, we grasp that developing China should "take up new commitments". **And yes, subsidies and state enterprises "in some countries" are an issue of interest for WTO reform.** We should not expect that a published source is going to reveal China's negotiating position on such a key issue: we are left to ambiguity.

Towards Europeans, the concessions under consideration appear very limited. There is a non-specific prospect of more market opening, but "controlled", "layer after layer". One expert suggests cooperation in third countries and more greenfield investment in Europe.

More broadly, if WTO is so valuable to China, what kind of reform can it propose or accept in order to save the multilateral trading system? **Its December 2018 position paper on WTO reform is defensive, centering on the importance of the developing country status.** Our sources are clear on what China does not want, but remain cryptical about what it could live with. Logically, in this period of negotiations with the Trump administration, these sources also dismiss US threats to leave the WTO as empty rhetoric. There is an echo here of China's boasts in the spring of 2018 that the US economy would suffer more than China from a trade war. **The defense of the status quo at the WTO extends to pointing out the downside of a bilateral US-China trade deal.** Indeed, large promises to buy from the US and to reduce the trade deficit with the US would violate WTO rules and hurt other trading partners, among them Europe.

In short, China will only participate in talks on WTO reform from a very conservative base line. We are reminded indirectly that China's professions of multilateralism are often a thin veneer, beneath which its national interest and assessment of relative strength prevail. This is perhaps not surprising, but it is also an indication of how tough the global trading game is likely to remain in coming years.

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ABOUT

China Trends seeks understanding of China from Chinese language sources. In an era where the international news cycle is often about China, having a reality check on Chinese expressions often provides for more in-depth analysis of the logic at work in policies, and needed information about policy debates where they exist. China Trends is a quarterly publication by Institut Montaigne's Asia program, with each issue focusing on a single theme.



CHINA AND WTO REFORM: MINIMAL CHANGES ONLY, PLEASE

The WTO is failing to keep pace with changes in international trade, leading to increasing doubts regarding its effectiveness and authority. With Donald Trump threatening to leave the organization, the issue of WTO reform has returned to the spotlight. This paper explores the Chinese narrative of envisioned WTO reform and issues surrounding it. Chinese experts agree that an orderly world has contributed to the economic growth and prospering of countries around the world, including China and the United States.¹ The role of the multilateral trading system represented by the WTO in the creation of this order is irreplaceable.² In an attempt to keep the US on board and avoid the collapse of the multilateral trading system, WTO reform has come back to the agenda of other members, aiming to both reassess WTO's concept and responses to new world development. On November 23rd, 2018, China's ministry of commerce published its own position paper on WTO reform, putting forward three basic principles and five suggestions.³ The three basic principles are: preserve the core values of the multilateral trading system; safeguard the development

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interests of developing members; and follow the practice of decision-making by consensus. Elaborating on this position, **Chinese analysts agree that reform is necessary but do not express a sense of urgency from their standpoint.**

Chinese experts do admit that WTO reform is inevitable and imperative for the institution to survive. Facing the choice between ending and reforming WTO, China agrees to reform. China has paid a huge price to join the WTO, and has benefited from it since then. China has invested in training diplomatic and legal personnel capable of defending China according to the WTO rules.⁴ With the collapse of WTO, new rules of the game would be established through a new mechanism, which might no longer benefit China.⁵ Hence, maintaining WTO is in the interest of China, but it differs from other WTO members on the scale of the reform. The group led by the EU, Japan, Canada, Australia, Brazil and Mexico advocates a large scale reform, while China advocates **reform "on the basis of necessity (必要性)"**.⁶

China is open to discussion, but this does not mean that it is willing to accept rules imposed by others. China is willing to accept suggestions and additional obligations, provided they are in accordance with its own roadmap for reform and opening up.⁷ As Zhang Xiangchen (张向晨), China's ambassador to the WTO, points out: *"if someone wishes, in the name of WTO reform, to put China in a tailor-made set of rules, they will be disappointed at the end."*⁸ Being targeted by other WTO members, one concern among Chinese experts is China's unwillingness to consider proposals and suggestions from others due to the feeling of victimization. China shall not be a passive player in the WTO reform, rather it should rationally analyze different reform proposals and defend itself, as well as other developing countries, against discrimination.⁹ The WTO is not



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1. "Supporting WTO Reform: Returning to Order Based Benign Competition" (支持WTO改革: 回归基于秩序的良性竞争), *Guangming Ribao (Guangming Daily)*, 17 October 2018. http://epaper.gmw.cn/gmrb/html/2018-10/17/nw.D110000gmr_b_20181017_1-09.htm

2. "Ministry of Commerce: China supports WTO reform, but it cannot be about starting a new mechanism" (商务部: 中方支持WTO改革 但不能另起炉灶), *Xinhua*, 27 September 2018. http://www.xinhuanet.com/fortune/2018-09/27/c_1123493457.htm

3. "China's Position Paper on WTO Reform" (中国关于世贸组织改革的立场文件), *Ministry of Commerce of the People's Republic of China*, 17 December 2018. <http://www.mofcom.gov.cn/article/jiguanzx/201812/20181202817611.shtml>

4. "WTO reform, another battlefield that China must not ignore" (WTO改革, 中国不能忽视的另一个战场), *Anbound*, 2 February 2019. http://www.anbound.com.cn/DisplayArticle.php?Rnumber=694&action=subject_view

5. Ibid

a tool for meeting particular needs of individuals or groups. **The WTO reform shall be inclusive and shall not be dictated by one party** (不搞小圈子, 也不搞一言堂); and since WTO members cannot find the perfect solution to satisfy all members, they should **seek common ground while reserving differences** (求同存异).¹⁰ The WTO is the product of a compromise between countries with different interests and status, and WTO reform must inherit this model.

The current WTO system allows its members to self-designate as “developing countries”, and this status comes along with certain rights, such as the entitlement of the **“special and differential treatment (SDT)”**. The United States is frustrated by the lack of criteria for “developing country”, and has requested concrete criteria to define developing countries. In China’s view, **when the US advocates a fair and reciprocal trade provision to replace the SDT, it is in fact advocating a “fair” environment in service to the American interest**. The WTO reform should not prioritize the economic interest of one single economy and monopolize the right to write rules.¹¹ Current actors should play by the rules that were initially set, and they should through their collective strength, instead of attempting to change these rules.¹²

In line with Xi Jinping’s work report to the 19th Party Congress, Chinese experts repeat that **“China’s status as a developing country is incontrovertible.”** China’s economic scale and power have significantly increased, but due to the unequal level of development between different regions and the room for improvement in different sectors, the gap between China and other developed countries remains significant.¹³ China, as the largest developing country in the world, is willing to take up responsibilities and commitments compatible with its level of development. But China stands firmly against any WTO reform proposal seeking to deprive China’s entitlement to SDT.

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Wei Jianguo (魏建国), former Vice Minister of Commerce and Vice Secretary General at the Chinese Center for International Economic Exchanges, stressed the significance of the SDT by calling it **the “touchstone” of WTO reform**, emphasizing that China will not consider any reform proposal targeting the SDT.¹⁴ Such provisions provided the basis for peace and development in the past few decades and were supported by developing countries which constitute the majority of the world population (人心所向).¹⁵ Backing the interest of China with the interest of a majority of WTO members is one of the method Chinese experts and officials use to support China’s stand.

The Trump administration will not rely on WTO to solve its trade dispute with China, and it has used threats of leaving WTO in order to obtain Chinese concessions. Behind the US behavior is its fear of China’s rapid development and the inability use to its own advantage the multilateral system. Huo Jianguo, Vice-Chairman of the China Society for World Trade Organization Studies, estimates that the US is unlikely to leave WTO. Trump’s threats precisely demonstrate that he takes WTO seriously, a strategic move of **treating retreat as advance** (以退为进).¹⁶ Huo’s assessment coincides with Li Jun (李俊), Director of the International Service Trade Research Institute. He further explains that if the US withdrew, it would have to cover its losses by signing bilateral free trade agreements with major trading partners: this is unlikely to be achieved in the short term.¹⁷ Protectionism is isolationism, and it will not **“make America Great again”**.¹⁸ Hence, **China should not surrender to US pressure and will come up with all appropriate defenses** (兵来将挡, 水来土掩).¹⁹

6. He Xiaoyong and Chen Yao, “Seeking Common Ground while Reserving Differences: Evaluation of WTO Reform Proposals and China’s Counterproposal” (“求同存异:WTO改革方案评析与中国对策建议”), *Shanghai Duiwai Jingji Daxue Xuebao (Journal of SUIBE)*, Vol. 26 No. 2, March 2019, pp.24-38

7. Zhang Xiangchen, “China Will Propose WTO Reform, But It Won’t Fall Into Someone Else’s Trap” (中国将提议WTO改革, 但不会落入别人的陷阱), *WTO Jingji Daokan (China WTO Tribune)*, Vol. 181, November 2018, pp.57-58

8. Ibid

9. He Xiaoyong and Chen Yao, “Seeking Common Ground while Reserving Differences: Evaluation of WTO Reform Proposals and China’s Counterproposal” (“求同存异:WTO改革方案评析与中国对策建议”), *Shanghai Duiwai Jingji Daxue Xuebao (Journal of SUIBE)*, Vol. 26 No. 2, March 2019, pp.24-38

10. Ibid

11. Li Zhongzhou, “Beware of WTO Reform going Astray”(WTO改革, 谨防误入歧途), *WTO Jingji Daokan (China WTO Tribune)*, Vol. 181, November 2018, pp.62-63

12. Zhang Xiangchen, “China Will Propose WTO Reform, But It Won’t Fall Into Someone Else’s Trap” (中国将提议WTO改革, 但不会落入别人的陷阱), *WTO Jingji Daokan (China WTO Tribune)*, Vol. 181, November 2018, pp.57-58

13. Ibid

14. “Wei Jianguo : WTO Reform, One Undeniable Principle” (魏建国: WTO改革, 有一条原则动不得), *Huanqiu*, 20 November 2018. <http://opinion.huanqiu.com/hqpl/2018-11/13590336.html?agt=61>

15. Ibid

16. “Huo Jianguo : Treating Retreat as Advance, the US intention to lead the WTO Reform” (霍建国: 以退为进, 美意欲主导WTO改革), *Huanqiu*, 06 September 2018. <http://opinion.huanqiu.com/hqpl/2018-09/12936234.html?agt=61>

17. “Will the WTO Be Paralyzed ? This Point is Very Critical” (WTO是否会陷入瘫痪? 这一点很关键), *Zhongguo Xinwen (China News)*, 26 January 2019.

18. Li Zhongzhou, “Beware of WTO Reform going Astray”(WTO改革, 谨防误入歧途), *WTO Jingji Daokan (China WTO Tribune)*, Vol. 181, November 2018, pp.62-63

19. “Trump’s Capricious and Targetless Punches” (特朗普任性打乱拳 中国的最佳对策是什么?), *Jiemian*, 11 April 2018, Available at : <https://www.jiemian.com/article/2049617.html>

Our sources directly challenge the American position and refute some "groundless" accusations. For instance, given the uniqueness of "Made in China 2025", the Office of the United States Trade Representative has accused China of violating WTO rules. While accusing China, the US did not point out which rules China has violated: the uniqueness of Chinese plan does not mean it violates the rules.²⁰ There is a need to distinguish between different issues: some fall under WTO provisions and should be solved within the WTO framework, while other issues cannot be forcibly described as issues for WTO. Some developing countries' provision of subsidies and support of SOEs have harmed the trade interests of other countries.²¹ While recognizing the need to address subsidies and SOEs under a future WTO framework, accusations towards China regarding these issues, until the completion of the reform, remain outside the scope of WTO and are to be solved bilaterally. **Experiencing harm to one's own interests is not in itself a legitimate reason to accuse others of violating WTO rules.**²² Moreover, Western countries are undergoing domestic changes. With the role of the government being highly regarded again, the boundary between free market and state intervention is becoming ambiguous.²³

However, a dispute between the US and China does not only harm the two key players, but also the global economy as a whole. Players in the global economy such as the EU cannot neither escape losses caused by the dispute, nor **the risks to be caught in the crossfire**. The WTO is meant to deal with trade disputes and prevent their escalation. The US tariffs imposed on China are a unilateral and protectionist act that flies in

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the face of WTO principles.²⁴ WTO's inability to contain the current trade war is ironic.²⁵ To safeguard the WTO mechanism and to provide a common and clear referee point, the current US-China trade war must be solved through WTO and not outside it.²⁶ Any bilateral agreement between the US and China not in line with the WTO principles will create new issues.²⁷ As these are the two main players in the globalized world economy, a bilateral resolution between the US and China would create multilateral issues in principle.

In sum, nothing can be accomplished without norms or standards (没有规矩不成方圆). Reinforcement of the WTO mechanism is in the core interest of all members of the global economy and requires coordination by great powers. China agrees to reform, but stresses the significance of national conditions (国情). China will adhere to its own principles of reform and opening up, and it will not be distracted by US threats of withdrawal, given China regards these threats as empty. ■

20. Su Qinyi, "The Divergence of China and The US in China's fulfillment of WTO Commitments and its cause" (中美在中国履行入世承诺上的分歧及其根源), *Shijie Zhishi (World Affairs)*, Vol. 14 No.1829, September 2018, pp. 63-65

21. "WTO: Survival or Destruction" (WTO生存还是毁灭), *Jingji Guancha (The Economic Observer)*, 04 March 2019. <http://www.eeo.com.cn/2019/0304/349228.shtml>

22. Su Qinyi, "The Divergence of China and The US in China's fulfillment of WTO Commitments and its cause" (中美在中国履行入世承诺上的分歧及其根源), *Shijie Zhishi (World Affairs)*, Vol. 14 No.1829, July 2018, pp. 63-65

23. "WTO : Survival or Destruction" (WTO生存还是毁灭), *Jingji Guancha (The Economic Observer)*, 04 March 2019. <http://www.eeo.com.cn/2019/0304/349228.shtml>

24. He Xiaoyong and Chen Yao, "Seeking Common Ground while Reserving Differences: Evaluation of WTO Reform Proposals and China's Counterproposal" ("求同存异": WTO改革方案评析与中国对策建议), *Shanghai Duiwai Jingji Daxue Xuebao (Journal of SUIBE)*, Vol. 26 No. 2, March 2019, pp.24-38

25. Pang Zhongying, "China and the WTO: Active Participation in the Establishment of New Global Economic Rules" (中国与世贸组织改革: 积极参与制定全球经济新规则), *Dangdai Shijie (Contemporary World)*, September 2018, pp. 65-66

26. "Supporting WTO Reform: Returning to Order Based Benign Competition" (支持WTO改革: 回归基于秩序的良性竞争), *Guangming Ribao (Guangming Daily)*, 17 October 2018. http://epaper.gmw.cn/gmrb/html/2018-10/17/nw.D110000gmrB_20181017_1-09.htm

27. Pang Zhongying, "China and the WTO: Active Participation in the Establishment of New Global Economic Rules" (中国与世贸组织改革: 积极参与制定全球经济新规则), *Dangdai Shijie (Contemporary World)*, September 2018, pp. 65-66

MADE IN CHINA

FROM FEARING THE WOLVES TO DANCING WITH THE WOLVES: CHINA LOOKS BACK AT WTO

After 15 years of arduous negotiation, the People's Republic of China (PRC) joined the World Trade Organization (WTO) on 11th December 2001. This admission marked a significant step towards China's integration into the global economy. Nearly eighteen years after the landmark deal, some Western analysts looking back at the decision to let China enter the WTO openly ask if this was a mistake.²⁸ This piece explores China's narrative and the salient points of debate in China regarding the consequences for the country of joining the trade organization.

A positive balance sheet

The Chinese metaphor for China's admission into the World Trade Organization is "entering the world" (入世), reflecting the strategic importance of joining for China's international position. Indeed, this was one of the historical decisions of the "reform and opening" policy. In a 2018 interview, Chen Fengying,

researcher at the China Institutes of Contemporary International Relations, describes China's admission to the WTO as part of the broader narrative of "reform and opening".²⁹ For her, the last 40 years of reform divide into four stages: from 1978 to 1991, 1991 to 2001, 2001 to 2018, and "after the 19th Congress". The

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admission to the WTO appears as a milestone, a "symbol" and marks the "real beginning of fast-paced economic development, the genuine start of benefiting (利用) from the global economy." From that point onwards, she says, many companies started to "go out" (走出去), globalizing their operations through mergers and acquisitions, cooperation and greenfield investment. China's admission to the WTO marked the beginning of a "golden decade" for Chinese growth and export-oriented economy. According to Chen Fengying, the 2016 G20 summit in Hangzhou marked the end of the third phase of the reform and opening and the beginning of the New Era, an era in which China is becoming a "contributor" (贡献者) to the world, in particular through the Belt and Road Initiative.³⁰

If joining WTO has become a symbol of China's global integration, it also triggered major debates in China during the 1990s regarding the costs and the benefits of globalization. The discussion was also sector-specific, with many asking "how to protect China's own markets and industry, especially food and agriculture, or also automobile industry."³¹ Wei Jianjun, CEO of Great Wall Motors recalls that before joining the WTO, "everyone thought that the Chinese automotive industry would collapse, the pressure was really high, people were saying that "the wolves are coming" (狼来了)." Shi Guangsheng, then-minister of Foreign Trade and Economic Cooperation in charge of negotiating the WTO agreement, enumerates similar risk assessments in a 2018 interview.³² How



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28. Philip Levy, "Was Letting China Into the WTO a Mistake?", *Foreign Affairs*, 2 April 2018.

29. Zhang Huaishui and Zhao Qiao, "Interview with Chen Fengying, Researcher at the China Institutes of Contemporary International Relations: after joining the WTO, building a new platform for global economic prosperity" (每经专访中国现代国际关系研究院原所长陈凤英: 中国入世后为全球经济繁荣搭建新平台), *Daily Economic News*, 17 August 2018.

30. Ibid, "从推动者向贡献者的转变, 最明显的标志是G20杭州峰会的召开, 中国向全世界贡献了中国方案, 构建人类命运共同体的概念深入人心。其实, 早在2013年习近平主席提出"一带一路"倡议开始, 中国就已经由经济全球化的推动者向贡献者转变"

31. Wang Xiaoyan, "To Review 40 Years of Reform and Opening: From Joining the WTO to building "One Belt One Road", (回顾改革开放40年: 从加入WTO到共建"一带一路"), *Renmin Ribao Haiwai Ban (People Daily International Edition)*, 11 September 2018.

32. Chen Si and Wu Qing, "The Great Change - China's foreign trade and the reform and opening", (伟大的变迁——中国外贸与改革开放), *Xuexi Shibao (Study Times)*, interview with Shi Guangsheng, 12 November 2018.

could Chinese firms survive the opening of markets and foreign competition? The challenge faced by government was particularly severe. How was a state used to “control everything” going to refocus on “creating a positive economic environment and use appropriate measures to manage the market? [Also], when foreign companies will come to China, they’ll expect equal treatment, so how to protect the Chinese firms then?”³³

On balance, Shi Guangsheng explains what the perceived benefits of joining the WTO were. At the time, he says, political elites realized that “integrating the WTO was a requirement to build the socialist market economy, to expand economic opportunities and environment,” and therefore, the benefits outweighed the cost.³⁴ Retrospectively, he highlights the three key advantages of becoming a WTO member. First, the WTO simply helped the construction of the Chinese economy. Second, “since China has the conditions for economic development and participation in the global economy, [joining the WTO] opened our doors, and allowed us to use to our advantage (利用 - liyong) the world’s resources, information, capital, market”. Finally, Shi Guangsheng defends that joining the WTO allowed China to participate in the elaboration of the rules of the organization, and make sure “that in writing up the rules, we can fully protect our own interests.” Huo Jianguo, vice-president of the China Society for World Trade Organization Studies, further agrees with the former minister, and claims the facts show that all the positive effects [of joining the WTO] far surpassed the damage people were worrying about.³⁵

Wang Yu (王钰), professor at the Harbin University of Commerce, offers a more academic perspective on the effect of joining the WTO on the economy.³⁶ The main positive influence according to her is the sudden surge in foreign investment, which in turn “brought substantial amount of capital, advanced technologies, but also modern “thinking” and management experience.” Such an abundance of labor force and investment made it easy for China to earn “large markets shares”.³⁷ Chen Fengying further suggests that “the surge of foreign investment forced Chinese companies to reform and hence to be more competitive”. **Second positive outcome according to Wang Yu, it helped the “marketization” (市场化) of China’s economy. Moreover, economic governance had to be reformed and institutionalized (法制化).** On this issue, Chen Fengying points out that in a limited time, China undertook the biggest legal and regulatory “cleaning” and “a great shift in its governance, with new governing methods and conception, such as “people oriented” [governance], “to serve the market and society” or “marketization of management.”³⁸ Third, joining the WTO helped “optimize the economic structure”, especially “the tertiary sector of industry which is getting closer to the importance of secondary industries”, which indicates that China is approaching a “third, second, first’ economic structure.”³⁹ In other words, an economic structure where the services sector will gradually dominate. In sum, joining WTO “helped enhance China’s international position” and according to Wang Yu, China moved from being a “rule-taker” to “gradually becoming a rule-maker”.⁴⁰

Joining WTO “helped enhance China’s international position”, and China moved from being a “rule-taker” to “gradually becoming a rule-maker”.

Other articles published by local newspapers offer interesting accounts of the WTO’s influence on China’s economic development. For example, *Changsha Evening News* (长沙晚报) features an insightful article entitled “how did entering the WTO change our lives?”.⁴¹ The journalist first quotes a local entrepreneur, who explains how everyone went from “fearing the wolves” to “dancing with them” (与狼共舞), then recounts how foreign retail brand like Walmart, Carrefour and Metro gradually came to town, bringing more products at a cheaper price.

33. Ibid, 大量的外资企业进来以后,都要公平对待,我们如何保护自己的企业,这对政府是一个重大考验。

34. Ibid, 大大推动改革开放、加速中国的经济发展和制度建设,推动中国的社会主义市场经济的建立。

35. Wang Xiaoyan, “To Review 40 Years of Reform and Opening : From Joining the WTO to building « One Belt One Road”, (回顾改革开放40年:从加入WTO到共建“一带一路”), *Renmin Ribao Haiwai Ban* (People Daily International Edition), 11 September 2018.

36. Wang Yu, “WTO influence on China - 20 years after joining the organization: assessment and perspective” (WTO对中国的影响——入世十二年后的回顾及展望), Harbin University of Commerce, *Duiwai Jingmao*, Vol. 4 No. 226, 2013

37. Ibid, “许多外资纷纷进入中国,带来了充足的资金和先进的科学技术以及现代化的思想理念和管理经验,与充裕资源相结合,使中国经济爆发出巨大的能量” Wang Yu, “WTO influence on China - 20 years after joining the organization: assessment and perspective” (WTO对中国的影响——入世十二年后的回顾及展望), Harbin University of Commerce, *Duiwai Jingmao*, Vol. 4 No. 226, 2013

38. Ibid, Zhang Huai Shui and Zhao Qiao, “Interview with Chen Fengying, Researcher at the China Institutes of Contemporary International Relations: after joining the WTO, building a new platform for global economic prosperity” (每经专访中国现代国际关系研究院原所长陈凤英: 中国入世后为全球经济繁荣搭建新平台), *Daily Economic News*, 17 August 2018.

39. Ibid, Wang Yu, (三二一的产业结构) - referring to an economy in which the services sector is the most important, followed by the industrial one and finally agriculture.

40. Ibid, Wang Yu, “[...] 逐渐成为规则的适应者和制定者”

41. Liu Jieping, “In 2001, China Entered the WTO, It Changed Our Lives” (长沙编年志 | 2001 中国入世, 改变你我的生活), *Changsha Wanbao* (Changsha Evening News), 9 November 2018

Yet, Wang Yu identifies at least three main negative influences of the WTO on China. **First, the trade tensions [between China and other countries] not only didn't stop, they worsened.** He states that *"there were only a few countries using anti-dumping lawsuits against China, but gradually more and more countries adopted such attitudes towards China's exports, to the point it became a systematic problem."*⁴² Second assessment, the gap between the rich and the poor widened. Every region did not equally enjoy the benefits from globalization, which then contributed to the ever-increasing income inequality. Finally, the author states quite simply but frankly that since it joined the WTO and became the world's factory, China's environmental and natural resources situation "worsened".⁴³

China's contribution to WTO and the world

But China's WTO narrative would not be complete without addressing the issue of compliance, and how it is portrayed in China's mainstream media discourse. Indeed, as Wang Yu pointed out, trade frictions with the US and other partners increased. Our sample of Chinese WTO articles shows striking similarity in the way the compliance question is tackled. **In a word, China not only fulfilled most of its commitments, it also became a "contributor" to the world's economy.** For example, Li Wei, director of the Institute of America and Oceania Study under the Ministry of Commerce⁴⁴ argues that *"China actively put into practice the concepts of free trade, entirely fulfilled its commitment, in such ways that it brought important opportunities for global trade and made an important contribution to the world"*.

This semantic shift matters in Xi Jinping's "new era" when China wants to edict its own rules and engage with the world on its own terms.

This is the standard discourse on China's implementation of WTO commitment. Usually, this narrative is supported by a few figures, such as the lowering of tariffs from 15% in 2010 to 9,6% in 2018⁴⁵; or, as the deputy director of bureau of foreign

trade of Institute of World Economics and Politics of the Chinese Academy of Social Science Su Qingyi explained, the PRC established a representation office in most of the WTO specialized departments to *"serve commerce"* (服务贸易), worked hard to provide legal guarantees for intellectual property.⁴⁶ Moreover, Sun Qingyi reminds us that China paid more than 28 billion USD in IP rights to foreign companies. Of course, scholars agree that all commitments haven't been respected. For example, Sun Qingyi agrees that in many sectors, such as research and development, mining, telecommunications, the markets are only partially opened. But in their opinion, what matters is that the work is already well advanced, and "on time" regarding its WTO commitment. When it comes to defending China's work and contribution to the WTO and the world, **it is striking that dozens of articles use the same figures (tariffs, global imports share) and examples to make their point, with sometimes entire articles being a simple list of "realizations."**⁴⁷

Yet, "China is still targeted and some countries by some countries for not having fulfilled the agreements' commitment, which is unfair." Indeed, according to Li Wei, *"the anti-dumping measures taken by some countries are in contradiction to their own commitment to the WTO."*⁴⁸ This is especially interesting as the country tries to brand itself as a "contributor" (贡献者) to the world, and not only a promoter (推动者).⁴⁹ This semantic shift matters in Xi Jinping's "new era" when China wants to edict its own rules and engage with the world on its own terms. The trade war and increased confrontation with the United States fits into this narrative, as China tries to portray itself as a champion of free trade and multilateralism.⁵⁰ If we look back at some articles from 2011, published to celebrate ten years of "entering the world", the narrative is similar

42. Wang Yu, "WTO influence on China - 20 years after joining the organization: assessment and perspective" (WTO 对中国的影响——入世十二年后的回顾及展望), Harbin University of Commerce, Duiwai Jingmao, Vol. 4 No. 226, 2013

43. Ibid

44. Wang Ke, "China Implemented Comprehensively Its WTO Commitments" (中国全面履行加入世贸组织承诺), Renmin Wang (People's Daily), 2 July 2018

45. Ibid

46. Ibid

47. "17 data to understand the 17 years of joining the WTO" (17个数据 看懂中国入世17年), Jinrong Jie (Finance World), 28 July 2018

48. Wang Ke, "China Implemented Comprehensively Its WTO Commitments" (中国全面履行加入世贸组织承诺), Renmin Wang (People's Daily), 2 July 2018

49. Zhang Huaishui and Zhao Qiao, "Interview with Chen Fengying, Researcher at the China Institutes of Contemporary International Relations: after joining the WTO, building a new platform for global economic prosperity" (每经专访中国现代国际关系研究院原所长陈凤英: 中国入世后为全球经济繁荣搭建新平台), Daily Economic News, 17 August 2018.

50. "In the New Era, Looking Back 17 Years After Joining the WTO and Its Benefits For The People And The World" (新时代, 看中国【回顾中国“入世”17年 惠及人民造福世界】自2001年...), CCTV4, 1 July 2018.

with two major differences. First, the language is now much less assertive and self-assured. Of course, the “developed countries” are still blamed for setting the rules, but, and here comes the second difference: it is stressed that China needs to continue its reform. Indeed, in an article, Wang Xinkui, professor affiliated with the Shanghai University of International Business and Economics, defends China’s efforts to fulfill its commitments, but stresses the need to pursue reform, to pay attention to the sustainability of the country’s exports-based economic model, and the dangerous isolation of China when it comes to trade disputes.⁵¹

To summarize, it makes no doubt that joining the WTO was a crucial historical decision, encapsulated by the abbreviation “entering the world” (入世). Joining the WTO is indeed portrayed as an historical landmark, which paved the way for China’s role as a “contributor” to world. However, the official narrative makes it clear that the transition period that started with China’s admission in the WTO has ended, and that a “new era” has started with Xi Jinping and his BRI, portrayed as a new step of China’s involvement in the global economy. ■

⁵¹ Li Linyun, “Ten Years After Joining the WTO, Looking Back At the Chinese Economy and Its Prospective”(入世十年后的中国经济回顾与展望), an interview with Wang Xinkui (王新奎) from 2011, see also Nie Shihai, “Ten years after joining the WTO, China and the WTO’s future” 入世十年-中国与WTO的未来, with interviews of different scholars or vice-ministers.



THE LONG AND WINDING ROAD TO AN EU-CHINA INVESTMENT TREATY

The European Council has again defined **the negotiation of a Bilateral Investment Agreement (BIA) with China as a priority**, in fact *“the EU’s main priority towards deepening and rebalancing its economic relationship with China”*.⁵² China’s 2018 Policy Paper on the European Union also places priority on the conclusion of an agreement, even though the BIA is clearly seen as a stepping stone to a full free-trade agreement.⁵³

Seven years after the decision to launch bilateral negotiations was reached at the 15th EU-China Summit, the negotiating teams of the two sides have gone through **their 19th round of negotiations last October in Brussels**. The succinct communiqué jointly adopted after the negotiation mentions *“an effort to bridge the gaps on a number of remaining issues”*.⁵⁴ This clearly remains an arduous

task. Yet, the adoption in 2019 of the EU Investment Screening Mechanism and of China’s new Foreign Investment Law create an environment of greater legal clarity for the two sides.

The current difficulties encountered reflect “growth pains” in the EU-China relationship.

Overall, **Chinese commentators are relatively upbeat regarding the prospects of concluding an**

agreement. They distinguish between short-term obstacles and long-term perspectives and argue that a strong common interest to create rules to regulate **the bilateral investment relationship will prevail in the long run**. The current difficulties encountered reflect “growth pains” (成长中的烦恼) in the EU-China relationship.⁵⁵ According to this logic, the two sides need to come to terms with the fact that besides the complementarity of the EU and the Chinese economies, which has not completely disappeared, **“competition is more and more salient”** (越来越突出).

Obstacles and solutions

Chinese analysts have responses for most of the complaints and demands formulated by the European side. Problems are understood as differences in perceptions and understanding that need to be bridged. They cover four main areas: **market access, sustainable development norms, corporate social responsibility standards and the composition of the negative list**. There is a recognition that what China faces from the European Union is a “major challenge” to converge.

But how should the two sides go around the concrete obstacles that have been delaying the conclusion of the agreement? Wang Haochen, from the Department of Economic Forecast under the State Information Center of the National Development and Reform Commission, presents the problem as a bargaining issue. On the one hand, the EU’s key goal is to “reduce to the minimum the sectors on China’s negative list”. On the other hand, China faces an “incessant flow of restrictive regulations adopted against Chinese investment” (针对我国投资频频出台限制法规) and differences that remain



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53. “Make joint efforts with a positive and pragmatic attitude to reach a win-win bilateral investment treaty, and launch a joint feasibility study on China-EU Free Trade Area at an early date to build a sound institutional framework for upgrading the economic and trade cooperation”. “China’s Policy Paper on the European Union”, *Xinhua*, 18 December 2018. http://www.xinhuanet.com/english/2018-12/18/c_137681829.htm

54. European Commission, DG Trade, “Report of the 19th round of negotiations for the EU-China Investment Agreement”, Brussels, 13 November 2018. http://trade.ec.europa.eu/doclib/docs/2018/november/tradoc_157495...pdf

55. Tian Dongdong, “EU-China economic and trade cooperation faces growth pains” (中欧经贸合作遇“成长中的烦恼”), *Zhongguo Zhengjuebao*, 12 January 2019. http://www.cs.com.cn/hw/03/201901/t20190112_5914403.html

important in levels of developments. In addition, the EU and China diverge on how they understand “openness” (开放程度), even though the extent of this divergence is not defined precisely in the source.⁵⁶

56. Wang Haochen, “The EU-China Bilateral Investment Agreement negotiations: problems, influence and responses”, (中欧投资协定谈判面临的问题、影响及应对) Zhongguo Wujia, December 2018, pp. 22-24. <http://kns.cnki.net/kcms/detail/>

Wang Haochen’s tone is resolutely positive when it comes to European pressure on state-owned enterprises (SOEs) and subsidies. The two sides have “different understandings of what a fair competition environment means” (公平竞争环境). **But external pressure is helpful domestically to promote SOE reform in the direction of “modern management, system of property rights and reduction of direct state interference in corporate affairs” (降低政府对企业经营行为的直接干预). No specific concessions are envisioned though.** Wang Haochen insists on the “necessary state protection of the interests of SOEs”.

Differences on norms and standards are portrayed as part of a historical necessity tending towards convergence. Chinese direct investment in the EU is one way through which Chinese companies will upgrade their own norms and standards of operations, especially with regards to human resources. But Wang shows much less flexibility and optimism where intangible technology transfers are linked to direct investment in China. **He describes such transfers as an “unavoidable situation” (不可避免的情况)**, not even mentioning the new legal guarantees prepared by China in its draft Foreign Investment Law to reassure investors.

China faces an “incessant flow of restrictive regulations adopted against Chinese investment”.

Wang Haochen makes **two recommendations** in order to conclude the negotiations with the European Union.

- **First, argue strongly (据理力争) that the EU should reduce the level of scrutiny of Chinese direct investment, and negotiate an agreement that supersedes the EU investment screening mechanism and the national screening mechanisms (权限高于欧盟及成员国颁布的管制条例或法律).** How could an external agreement supersede EU rules that have just been adopted remains unclear. This is particularly striking as China itself now strongly insists on the primacy of its legal system over international law in many issues, ranging from maritime affairs to human rights.
- **Second, he suggests a gradual opening market access on the basis of careful risk assessments.** He does not make any specific recommendation beyond the car and finance industries which have been designated for gradual opening in the spring of 2018. China’s logic should focus on “strategically controlling the rhythm of market opening, layer after layer”, and it should maintain strong safeguards such as national security screening (despite the risk of being accused of having double standards).

Prevailing over European fears

The starting point of most analyses is the minimal weight of bilateral investment in the overall EU-China economic relationship, by comparison also with their global economic strength. Two figures are constantly cited: the EU’s stock of investment in China represents only 4% of its global overseas direct investment, and **China’s FDI in Europe amounts to only 2% of the stock of foreign investment inside the EU.**

But while such figures do not lie, the larger policy question for China is how to respond to what is perceived as the “rise of protectionism” in Europe. Liu Zuokui, an expert of Europe at the China Academy of Social Sciences, provides a bleak list of all the various problems currently faced by European governments and how they converge to give birth to a strong wave of “protectionism”. The consequence for China is not only in the form of new restrictions in terms of market access and access to European technologies: **China also needs to deal with Europe placing more emphasis on “ideological differences and cultural threats”** (意识形态的差异以及其他文化的威胁).⁵⁷ **This directly affects China’s Belt and Road Initiative**, as China not only faces an investment screening mechanism, trade protection measures and the refusal to be granted Market Economy Status, but also deep wariness (防范) towards infrastructure projects funded by Chinese loans.

The long-term game for Chinese firms is to get European companies accustomed to cooperation with China so that the Europeans “improve their attitude”.

In short, Liu Zuokui sees competition between the BRI and Europe’s norms and standards.

Europe’s toolbox of protective measures will further grow. Liu Zuokui also predicts an increase in legal disputes on trade issues, especially anti-dumping actions against China.

But there are also reasons not to be entirely pessimistic, according to Liu Zuokui. Overall, Europe needs foreign investment and access to developing markets. Chinese companies are learning to cope with the European environment, how to deal with Corporate Social Responsibility standards and how to present their operations in relation with Europe’s unemployment problem. These efforts will pay in the longer term. He also expects the European population (欧洲民众) to increasingly gain better understanding of the Belt and Road Initiative. He also observes **that implementation of the investment screening mechanism will inevitably lead the EU to seek a new balance between market protectionism and openness.** In short, the situation is far from being all black. Over the long term, the two sides have a “common interest in cooperation, not confrontation” (合作而非对抗).

Wang Haochen ends his recommendations on how to promote convergence between the Belt and Road Initiative and the EU Investment Plan, and places importance on the learning curve of Chinese firms operating in Europe. It is understandable that the concentration of Chinese investment in M&As and shareholding creates opposition forces in Europe. The answer to dispel such concerns is to increase joint investment in third countries and greenfield investment inside Europe, also together with European firms. The long-term game for Chinese firms is to get European companies accustomed to cooperation with China so that the Europeans “improve their attitude” (改善态度).

Interests over rules

Such optimism should be placed in the larger framework of China’s foreign policy strategy. Ambassador Su Ge, Chairman of China’s National Committee for Pacific Economic Cooperation, recalls the outcome of the June 2018 Central Work Conference on Foreign Affairs that took place in Beijing and was the occasion to pin down China’s foreign policy strategy, or in his own words, “great power diplomacy with Chinese characteristics under the guidance of Xi Jinping thought”. The priority defined in 2018 is to “stabilize great power relations” in the context of the US trade war.⁵⁸ As a result, **deepening China’s relations**

57. Liu Zuokui, “The rise of European protectionism and its influence on the Belt and Road Initiative”, (欧洲保护主义的兴起及其对“一带一路”建设的影响), *Guoji Wenti Yanjiu*, no. 6, 2018, 28 December 2018. http://www.cssn.cn/gjgxx/gj_ozyj/201812/t20181228_4802346.shtml

58. Su Ge, “2018: Changes in the world and China’s diplomacy”, (2018: 世界变局与中国外交), *Renmin Wang*, 26 February 2019. <http://world.people.com.cn/n1/2019/0226/c187656-30903155.html>

with the EU, France, the UK and Germany is a matter of strategic balance, and Chinese optimism is also a diplomatic effort to create positive outcomes.

As Sun Yan from the European Studies Department of the China Academy of Social Sciences makes it clear, the main challenge in EU-China relations is how the two sides manage their “normative competition” (规则之争). On this issue, like many Chinese analysts, she places expediency and relative power over absolute values. “In reality, in this world, there is no absolute justice in international rules, and no international system is able to fully satisfy all its stakeholders. The best rule is to grasp the guiding principles and the big direction of the interests of all stakeholders and set rules that take good care of the interests of the majority of countries”.⁵⁹ **This vision of international rules and standards as reflecting a global balance of power rather than any benchmarking or best practices** also permeates Chinese analyses of the ongoing investment negotiation with Europe. ■

⁵⁹ Sun Yan, “Building a Comprehensive EU-China Strategy Partnership with Greater Global Influence”, (建设更具全球影响力的中欧全面战略伙伴关系), *Hongqi Wengao - Red Flag Manuscript*, 12 February 2019. http://cass.cssn.cn/xueshuchengguo/guojijianjiuxuebu/201902/t20190214_4825091.html Full quote: 实际上, 世界上不存在绝对公正公平的国际规则, 也不存在能够满足所有参与方利益关切的国际体制。能够把握好关乎各方利益的大原则、大方向, 并且能更多兼顾大多数国家关切的规则, 就是一个好的规则。

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