

## **Trade War Trump-China reveals weakness of WTO – De TIJD – 12July 2018**

The US under Trump engages in a trade war especially with China and threatens to leave the World Trade Organization. To date there is very little response from the WTO as an institution. Was it not the purpose of the WTO to avoid trade wars? Then why do we get this scenario?

Is the American president Donald Trump a suicide pilot? Or is there more to the trade war with China that Trump initiated? The cause for the trade is not difficult to see. For years already, the US has been trying to reform the World Trade Organization because it falls short of ensuring fair competition in international markets.

One of the most important shortcomings is that there is currently no world competition policy authority or global competition rules to which every country has to adhere. The World Trade organization has a mandate to regulate trade between countries but its charter does not go beyond trade rules. The rules of the WTO offer few possibilities whenever a country like China, where state subsidies still occur frequently, to sanction or curtail. Competition policy belongs to the auspices of national governments. There is no international jurisprudence only national rules set by individual countries.

When a country like China allows state support to firms, there is little that can be done by its trade partners. Within the WTO rules, the only possibility to punish China is by the use of antidumping and antisubsidy tariffs on products whose production is subsidized by the state.

For years the US, but also the EU and others have been active users of antidumping import tariffs especially against China. For specific products that China exports, import tariffs are imposed for a period of 5 years or longer. Every year about 50 different Chinese products are subject to these antidumping or antisubsidy charges, imposed by the US and the EU at their borders.

When the US impose tariffs on China, Chinese products become more expensive on the US market. An import tariff makes Chinese subsidies less attractive. Thus if an import tariff by trade partners results in lower incentives for China to subsidize its exported products, than China is forced to revise its competition policy as a result of the import reactions by other countries. This tit-for-tat strategy has thus far been applied within WTO rules in the form of article 6, through the use of antidumping and antisubsidy measures.

But now we see that the Trump regime is no longer limited to the use of antidumping measures that fall within the rules of the WTO. The US decided to take the matter in its own hands. Without the permission of the WTO and without following the appropriate procedures, the US announces import tariffs on Chinese products, no doubt to force China to revise their subsidization practices more quickly.

For several years, the Americans have openly expressed criticism on the functioning of the WTO. Their call for reform was thus far not shared by others, such as the EU, who only reacted in a lukewarm fashion and halted any reform. One way to view the current trade war therefore is an expression of the US's discontent with the functioning of the WTO. That organization has remained largely silent thus far. The current WTO chief, Roberto Azvedo has not reacted publicly, while the rest of the world is wondering why the WTO does not prevent the US by acting on its own initiative.

Not just China, also the former countries of Eastern Europe had a tradition of state support. But before the ex-communist countries of Eastern Europe could enter the European single market, they were obliged to adopt the EU competition policy into their national legislation. As such, these countries could no longer compete unfairly with companies from Western Europe. All EU companies have to operate under one common EU competition policy that is set in Brussels and by the European institutions.

This is the main difference with the WTO. In 2001 when China entered the WTO, the only rules that it needed to adhere to were the rules that apply to international trade. In the absence of a World Competition Authority, competition policy was left to the discretion of China. Should China have been offered access to the WTO without waterproof guarantees that it was going to play fair? Should the WTO have demanded stronger guarantees for reforms in China's national competition policy?

A country with a communist history has the tradition to support companies and to plan the economy. Nobody expected this to happen overnight in China. But currently we are almost 20 years beyond WTO accession. The conclusion is therefore that the Chinese no doubt could have done more.

For the US, time seems up. But the problem that economists see with the current trade war with China, is that there is no time limit set on the import tariffs. This results in uncertainty and potentially has a much larger disruptive impact than antidumping measures that only apply for 5 years and whose use is clear limited in time.

Is the WTO going to use this existential crisis to make changes? Will the US leave the WTO? Will China be expelled from the WTO? We do not know the answers to these questions. In any case it is clear that institutions that do not function well should be up for change. Trade policy and competition policy should go hand in hand. Open borders without a common set of competition rules results in discord.

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