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## China's Role in the World Trade Organization and the Doha Round of Multilateral Trade Negotiations

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### Introduction

The potential of China to become a powerful force in international trade was already in the back of other Members' negotiators' minds in 2001 when they signed off on the package of market access and protocol provisions that would guide China's participation in the WTO. Nobody believed that China would be an "ordinary" Member of the WTO like most other countries. China, they reasoned, would be special because it was big and getting bigger and China, it was thought, would act according to its status and assume vigorous and even aggressive policy postures in the WTO. A special Member required special terms and conditions of membership. In addition, China joined the WTO at the Ministerial meeting that launched the Doha Round of multilateral trade negotiations and it seemed clear that the positions taken by China would play an important role in shaping the course and outcome of the talks.

Nearly five years have passed since China completed the accession process and the Doha talks were launched. The Doha Round negotiations are in very serious trouble and may ultimately fail after numerous setbacks since mid-2003. Total failure of the talks could seriously undermine the WTO that China worked so hard to join. China's export-led development is "insured" by its membership in the World Trade Organization and as such, China's own future is intertwined with that of the multilateral system. The ultimate failure of the Doha Round and the undermining of the WTO would have serious negative consequences for China.

Under these circumstances, this seems to be an appropriate point at which to review China's participation in the system since joining. Has China been a "special" Member of the WTO or has the country behaved like most other Members? Has China been aggressive in Geneva as many worried she would be? In the Doha negotiations, to what degree have China's negotiating proposals been motivated by the internal dynamics of groups with which China has become

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associated? China seems clearly to have benefited from membership in the WTO. Have other Members of the Organization gained from Chinese WTO membership?

This paper will examine these key questions to assess China's role in the WTO and the Doha Round.

### WTO Members' Perceptions of China in the WTO

After fifteen long years of negotiations, WTO Members enthusiastically welcomed China to the WTO "Club". At the same time, few of the players were confident that they could predict the consequences for the Organization of Chinese membership. An oft-heard expression in late 2001 was that "China is not joining the WTO – the WTO is joining China." With this line, commentators were expressing the view that China could be expected to be a powerful and determining force in the WTO. China was expected to be a strong independent actor and, reasoned other WTO Members, China needed to be subject to some special provisions in order that others' interests would be protected. The potential for Chinese exporters to inundate others' markets called for protective measures in the form of the Chinese protocol's unique transition features: the China-specific market disruption safeguard mechanism; the seven-year special textile safeguard; and the protocol's special "non-market economy" provision for antidumping purposes. In addition, China agreed to a special multilateral mechanism that would annually review China's compliance with its WTO commitments for eight years after China's accession.

China is to some degree a victim of discrimination in what is supposed to be a non-discriminatory multilateral system. It is clear that the special safeguard provisions were designed to ensure that other WTO Members could protect themselves against China-origin surges without the procedural complications of the general WTO safeguards arrangement and the non-market economy provision was essentially protectionist in motivation. On the other hand, the annual review mechanism appears to make good sense (both for China and other WTO Members) given the staged nature of many of China's accession commitments.

WTO-based reviews of China in the system have been supplemented in some instances by nationally conducted reviews in key trading partners like the United States. For example, the Office of the United States Trade Representative (USTR) is required by legislation<sup>2</sup> to report annually to the American Congress on the extent of China's compliance with the commitments made in connection with WTO accession. A brief look at USTR's 2003 report gives us a good idea of how well China was seen to be performing two years into its WTO Membership as analyzed by reference to the nine broad categories of China's WTO commitments.

USTR's 2003 report started with a summary of how dramatically the Sino-American trading relationship had been altered by Chinese accession. In the first two years of Chinese membership of the WTO, China had become the third largest trading partner of the United States and the sixth largest market for American exports. In those first two years, United States exports to China had grown by 66 percent at a time when United States exports to the rest of the world had fallen by 10 percent. American business representatives testifying at hearings held in connection with the report's preparation generally said that business with China was good and getting better all the time.

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<sup>2</sup> Section 421 of the U.S.-China relations Act of 2000 (P.L. 106-286), 22 U.S.C. Sec 6951.

China was recognized by the authors of the USTR report to have made substantial progress in implementing key aspects of its WTO commitments. While giving credit for positive developments, the 2003 report also maintained that China's WTO implementation efforts seemed to have lost momentum in the course of the year. On the positive side, China had taken steps to correct systemic problems in tariff rate quota administration applied to bulk agricultural products, reduced capitalization requirements in a number of financial services sectors and liberalized financing of automobile purchases. On the negative side, China was criticized for falling far short of the expected implementation of its commitments. The biggest problems were those relating to trade in agricultural products, services, enforcement of intellectual property rights and transparency of the Chinese system of trade controls and regulation.

The Americans accused China of applying unreasonable rules to impede imports of United States biotechnology products. The problem of failure to adequately enforce intellectual property rights at the end of 2003 was cited as a pervasive one. Capitalization requirements that were said to exceed international norms were a problem in some services sectors and China was accused of using value-added tax policies to favor domestic over imported goods. American business was concerned that China seemed to be behind schedule in implementing commitments relating to the granting of trading rights – one of the major American objectives in the accession negotiations. At the end of 2003, the USTR concluded that the United States would continue to work with China to ensure that accession-related commitments were met fully and on schedule but threatened that if bilateral efforts were not successful, the United States would not hesitate to bring a dispute settlement case against China in the WTO.

Since the time of that American report, the situation has changed and other WTO Members' views of China have continued to evolve. The Economist Magazine's March 5, 2005 survey of China and India compared the two countries' economic development and concluded that India (a Member of the GATT-WTO family since 1947) had much to learn from China's recent economic expansion. The authors of the Economist survey argued that Chinese reforms had gone much further than India's in terms of integrating the country into the global economy and noted that the rewards to China had been commensurately larger. Over the course of the 1990's, China's increasing integration into the global economy had led to the country's trade to GDP ratio rising by over 70%. In 2004, the increase in China's trade volume was greater than India's total foreign trade. China, its economic reforms and the impact of these reforms were increasingly being seen in a positive light by economic commentators and government officials.

China has also undergone the first of what will be its periodic Trade Policy Review (TPR) under the WTO Trade Policy Review Mechanism (TPRM). The records of this initial review, conducted on 19 and 21 April 2006, give us a very good and reasonably current overview of how other WTO Members view China's participation in the international trading system.

In the course of the TPR, China was generally commended for economic reforms that had reduced poverty in the country, stimulated growth and foreign investment and made China a central player in the global economy. The American delegation noted that its February 2006 review of Sino-U.S. trade policy had identified many benefits to the United States from the evolving relationship. United States consumers were cited as enjoying access to a wider variety of less costly goods from China which kept inflation low while stimulating economic growth. Similarly, United States companies and workers had become more competitive by virtue of their increased access to Chinese-produced inputs. Since China joined the WTO, China had become

the fourth biggest export market for American products (up from ninth place) and United States exports to China had grown five times faster than to the rest of the world.<sup>3</sup>

Acknowledging significant progress in the implementation of China's WTO commitments, the American delegation remained critical in early 2006 of the insufficient Chinese progress in adopting non-discrimination and national treatment norms for many sectors of the Chinese economy. China was accused of continuing to use industrial policy tools, like those of the 2005 Steel Industry Development Policy, to promote or protect favored industries. In the steel sector, for example, China was said to pursue policies calling for the use of domestically-produced steel manufacturing equipment where this existed. Auto parts regulations promulgated in April 2005 were said by the Americans to discriminate against imported parts and the United States delegation – joined by those of Canada and the European Communities – had requested formal dispute settlement consultations. The American representative in the TPRM meeting concluded his remarks by stating that the United States looked forward to further cooperative and constructive engagement with China, including through working with China to bring about a successful conclusion to the Doha Round in 2006. According to the United States, China's early success as a WTO Member carried with it the responsibility to take a leadership role in the Doha negotiations.

Japan is another leading economic partner of China and when the delegation of Japan took the floor in China's TPR meeting, its spokesman said that China's accession to the WTO was the most important trade event of the century. The Japanese spokesman said that in early 2006 Japan continued to have concerns about the lack of transparency in China, frequent changes of rules and regulations without prior notice and inconsistent interpretations of rules. Like the United States and European Communities, Japan had concerns about the Chinese trade regime for automotive parts. In terms of China's overall role in the WTO since accession, Japan observed that China had engaged actively in the WTO's activities across-the-board and the country's commitment to the WTO had been demonstrated at the Dalian "Mini-Ministerial" conference hosted by China in 2005.

The view of the European Communities at the TPRM was not dissimilar from that of other major trading partners of China. The European Communities acknowledged that China had come a long way and made many reforms which had worked to the benefit of China and its partners. Since the accession of China into the WTO the European Communities had become China's largest trading partner. China is now the European Communities' second largest trading partner. Brussels was concerned, however, that there seemed now to be signs in China of decreasing enthusiasm for reforms. After a period of adapting to the rules of the WTO, there were worrying signs in China that policies of fostering discriminatory treatment of foreign firms and supporting national champions were emerging again. Industrial policies and a lack of transparency were seen by the European Communities as a problem. Like Japan and the United States, the Europeans said that China was expected to play an important and positive role in the Doha Round of negotiations, which were now in some trouble.

Smaller countries that took the floor also expressed the view that China had changed markedly since joining the WTO and that China's evident success in the system carried with it a responsibility by China to act in ways that were supportive of positive outcomes in the Doha Round. Singapore took note of the fact that since joining the WTO, China had taken important steps to reduce restrictions on private sector participation in the Chinese economy. Singapore

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<sup>3</sup> Minutes of the Chinese TPR meeting, paragraph 34.

felt that China had been slower to remove restrictions in the services sector than in manufacturing, and encouraged China in its future policy development to make use of measures that were least trade-restricting.

Responding at the April 2006 meeting to the main points made by these and other WTO Member delegations, the Chinese delegation noted that China had made extensive commitments to open its market upon its WTO accession and that China's fast economic growth had also benefited from the open, healthy, and functional system. By early 2006, China had become one of the larger trading nations, and the multilateral trading system remained at the top of the Beijing Government's trade agenda. In China's view, the most urgent and important task in early 2006 was the success of the Doha round. At the same time, it had to be recognized that, like other Members, China was engaged in a bilateral and regional FTA negotiations. China had either agreed or was negotiating nine FTAs involving 27 countries and regions. These, however, could not and should not replace the multilateral trading system.

Four and a half years into China's membership in the WTO, the April 2006 TPR of China seemed to show that China was increasingly accepted and recognized as a constructive member of the WTO "Club" that had benefited importantly since membership and was committed to the successful completion of the WTO's troubled Doha Round of multilateral trade negotiations. WTO Members and China recognized that China was still in the process of implementing many of its WTO accession commitments. The road was not completely without difficulties and certain areas (transparency, IPR protection, and national treatment) continue to concern other Members of the WTO. It is, however, probably correct to say that China is increasingly less of a "special" member of the WTO in 2006.

### **China and WTO Dispute Settlement**

More than anything else, the dispute settlement system of the WTO sets the organization apart from other global institutions. The WTO's Dispute Settlement Understanding (DSU) has real "teeth" and WTO Members that do not live up to their obligations can be punished in very real ways by the system. The way in which a country participates in this unique system helps to define the way in which they are perceived in the WTO system.

What is the ideal way in which to behave? Clearly, the WTO's DSU needs to work effectively for countries that bring disputes against others when such disputes are warranted. At the same time, Members should ideally work to correctly implement their obligations under the WTO system and avoid challenges from others under the DSU. When a Member is challenged and when it either knows it is acting incorrectly or when it loses a case in a challenge, it is important that the Member should come into compliance with its obligations as soon as possible. This is not only good WTO "citizenship", but it also has an important demonstration effect. It is much easier and more credible to demand that others live up to the rules if a WTO Member can demonstrate that it is doing so itself.

From a review of China's early experience with the WTO DSU, we can say that China is behaving well in dispute settlement and is generally playing the role of a good WTO citizen. There are cases we can document when Chinese officials unilaterally fixed problems that might have been the subject of a dispute settlement action. In other cases, China has generally resolved the problem when challenged before the dispute proceeded to formal litigation. On the other side, China has used the DSU to its own advantage when confronted with WTO-inconsistent practices of other Members.

The Shanghai WTO Affairs Consultation Centre in a recent WTO publication<sup>4</sup> documents a case where Chinese officials took action on their own to correct a violation of China's WTO obligations without the matter going to dispute settlement under the DSU. The 2002 case involved the way in which Shanghai municipal government authorities managed the monthly license plate auctions for new vehicles. These auctions are used as a way of moderating the release of new vehicles onto the streets and to raise revenue for the municipality and are not intended to impact international trade. When the American consulate complained to the Center that the system was working to the disadvantage of imported vehicles, the Center investigated the situation.

The Center discovered that a monthly auction rule called for 3,000 license plates to be auctioned for domestically-produced automobiles compared to just 30 plates for imported cars. In addition, a floor price had been set at the auction for plates destined for imported cars while no such floor price was operative for domestic vehicles. The practical effect of these auction-related practices for license plates was to disadvantage imported cars relative to the Chinese-made vehicles. From a legal standpoint, the Center knew that these measures violated China's national treatment obligations under the WTO.

In order to head-off a situation where China might have been successfully challenged under the WTO, the Center entered into negotiations with the municipal government authorities and convinced the relevant decision-makers to discontinue the discriminatory treatment at the monthly auctions. Since October, 2002 the auctions have been conducted in conformity with China's WTO obligations – with no separate numerical limits set on the number of plates available for foreign cars and no differential floor prices for the auctioned plates.

A second case, initiated slightly more than two years after China acceded to the WTO demonstrated how China reacted when formally challenged under the DSU. In this case, involving China's tax treatment of integrated circuits (ICs), the United States charged that China was subjecting imported ICs to higher taxes than those applied to domestically-produced ICs because enterprises in China were entitled to a partial refund of the 17 percent VAT on ICs they produced. This, alleged the United States, was a violation of China's national treatment obligations. Furthermore, China was accused of discriminating in its treatment of imports from different WTO Members in violation of the most-favored-nation (MFN) obligation because the authorities permitted a partial refund of VAT for Chinese-designed ICs that were manufactured outside of China for technological reasons. This differential treatment also called into question China's obligations under Article XVII of the WTO Services Agreement. After the U.S. initiated the request for consultations, the consultations were joined by the EC, Japan and Mexico – all of which supported the arguments advanced by the United States.

China might have decided to contest this case under the DSU and insisted that the complaining countries pursue a full-blown legal challenge to the VAT regime for ICs. However, Chinese authorities probably realized that their case was not a strong one and rather than force an unnecessary period of litigation, Beijing entered into negotiations with the complaining WTO Members. Following the negotiations, the measures at issue were amended to eliminate the discriminatory availability of VAT refunds on ICs produced and sold in China and on ICs designed in China but manufactured abroad. The United States and China subsequently notified the WTO that they had reached a mutually satisfactory solution to the matter raised by the United States

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<sup>4</sup> *Shanghai's WTO Affairs Consultation Center: Working Together to Take Advantage of WTO Membership*, Chapter 11 in *Managing the Challenges of WTO Participation – 45 Case Studies*, Ed. Gallagher, Low and Stoler, Cambridge University Press 2005.

and several other of China's trading partners. In a constructive approach to dealing with an issue under the formal auspices of the DSU, China had agreed to "settle out of court" to the satisfaction of the complaining WTO Members.

More recently, China has been the target of dispute settlement consultation requests from a large number of its trading partners<sup>5</sup> in a dispute involving its treatment of automobiles and automobile parts. From the text of the request for consultations filed by Canada in April 2006, China stands accused of imposing different charges on vehicles manufactured in China depending upon the domestic content of the automobile parts used in manufacture. Canada and the others alleged that the measures taken under three different Chinese Government orders, decrees and rules result in additional charges on imported parts that a domestic manufacturer will incur where the volume or value of imported parts in a final assembled vehicle exceeds specified thresholds. Assessed after the vehicle is manufactured, the additional charges provide an advantage to Chinese producers if they use Chinese produced parts. Canada and the other complainants have charged that the Chinese measures violate China's tariff binding commitments and obligations in respect of national treatment, trade-related investment measures, rules of origin and Article 3 of the Subsidies Agreement.

While there was considerable speculation in early June that the United States, EC and Canada were on the verge of requesting the establishment of a dispute settlement panel in this case, there are more recent indications that China is attempting to negotiate a solution to the dispute as with the other cases discussed here where a formal request for consultations has been addressed to China under the DSU. According to reports from early August, China's General Administration of Customs has decided to postpone the implementation of the tariff rule that is at the core of this dispute. Reportedly, the entry into force of the rule may be postponed until July, 2008. Whether postponing implementation while keeping the rule on the books will be enough to head off a definitive dispute settlement action is not clear and there are rumors that the complainants might still press for the establishment of a panel in this case.

In the meantime, China faces continuing criticism over intellectual property rights violations. While none of the many complaints made thus far has led to a formal dispute settlement complaint, an American trade official was quoted in early August as saying that the U.S. Government had accumulated enough evidence that it was considering proceeding with a formal case against China.

China has not only been a defendant under the WTO system but has also availed itself of the opportunity to challenge measures by other WTO Members, either directly as a complainant or less directly as a third party in a cases initiated by other countries. As a matter of general practice, China regularly signs on as a third party in WTO disputes. In some cases, this is because China sees that the cases involve "systemic" interests. In others, it is clear that China has at least an indirect "China-specific" interest in the case. In the section that follows, we review briefly a number of cases to see which kind of disputes have attracted Chinese interest under the WTO.

Perhaps the dispute which has attracted the greatest Chinese energy to date was the 2002-2003 dispute brought by many WTO Members against the United States following the Americans' decision to impose safeguard measures on a wide range of imported steel products. While China initially joined the dispute as a third party to the complaint lodged by the European Communities

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<sup>5</sup> United States, Canada, European Communities, Japan, Australia and Mexico.

(DS/248), it quickly converted its participation into full complainant status with the launch of its own distinct request for consultations and complaint in DS/252. This was a relatively bold action by the Chinese, coming only several months after joining the WTO. On the other hand, China was in good company with formal complaints also lodged against the United States by the EC, Japan, Korea, Switzerland, Norway, New Zealand and Brazil. In other words this first case as a complainant did not draw undue attention to the actions of China or imply that China would be an aggressive user of dispute settlement.

The case brought by China and the other WTO Members was a good one with the panel concluding that the United States' measures were inconsistent with a number of the WTO prerequisites for imposition of a safeguard measure. Five months later, the Appellate Body upheld the panel's conclusions that each of the ten safeguard measures at issue was inconsistent with the United States' obligations under Article XIX of the GATT and the Safeguards Agreement. One month after the report of the Appellate Body, the United States announced that it had terminated all of the safeguard measures at issue in the dispute. A very interesting aspect to this case was the fact that each of the complainants – including China – made complementary (as opposed to duplicative) submissions to the panel and Appellate Body, implying a large degree of inter-delegation collaboration on dispute settlement.

The steel safeguards case is exceptional for China. So far, in other areas where China has complained under the DSU about other WTO Members' actions it has done so as a third party. In late 2004, for example, China sided with the United States (the complainant) and other third parties (Argentina, Australia, Brazil, Chinese Taipei, Hong Kong-China, India, Japan and Korea) in a dispute with the European Communities concerning the EC's administration of laws and regulations pertaining to the classification and valuation of products for customs purposes. China shared the view of the others in this case that the EC manner of administering the laws, regulations and related measures was inconsistent with the EC's obligations under Article X:1, X:3(a) and (b) of the GATT 1994.

In another case, later in 2004, China joined a case brought by Japan against the United States centered on the U.S. "zeroing" policy in antidumping cases. The Japanese case maintained that "zeroing" (a practice that considerably disadvantages the exporters accused of dumping), the way in which the US Department of Commerce conducted "sunset" reviews and the way in which U.S. legislation sometimes obliged the Commerce Department to find likelihood of dumping without a substantive review, were inconsistent with a large number of U.S. obligations under the Antidumping Agreement, Article VI of the GATT and Article XVI:4 of the WTO Agreement. Third party participation in trade remedy cases addressed to systemic questions like "zeroing" is quite normal in the WTO, particularly by a group of countries that has become known as opposed to antidumping action more generally. Consistent with this pattern, China was joined in the "zeroing" case as a third party by Argentina, Hong Kong, India, Korea, Mexico, New Zealand, Norway and Thailand.

China has used third party participation in dispute settlement cases as a way of protecting its interests in areas where Chinese exporters have been traditionally "victimized", such as the customs measures and antidumping cases discussed above. But China has also demonstrated that it is prepared to become involved in dispute settlement procedures in areas that might significantly affect its future interests in international trade. Such would seem to be the case with the Chinese decision to become a third party in the U.S. complaint against the European Communities in respect of Measures Affecting Trade in Large Civil Aircraft (DS/347) – a case

known more popularly as the “Boeing-Airbus” dispute. Other third parties include Australia, Brazil, Canada, Japan and Korea.

The history of the WTO DSU is full of cases where, even though WTO Members must have known they were almost certainly acting in violation of their WTO obligations, they nevertheless opted to defend their actions to the fullest extent of their ability. Perhaps such stands have been dictated by internal politics. More cynically, countries might even have used the DSU process to play for time. While we can recognize that a WTO Member has a right to defend its actions under the DSU, we nevertheless do not need to sanction a country’s abuse of the system to enable it to prolong its WTO violations.

China is a major international trading country and the sheer volume of Chinese exports is bound to guarantee that China will see it in its interest to stand up for its rights. China is doing this in the WTO but its approach is notably conservative. So far, it has limited action to those cases where the merits of the dispute seem fairly evident and where others have as well been convinced enough of these merits to join the dispute action themselves. Even where China was a complainant in its own right in the steel safeguards case, it had plenty of company. At least to this point in time, China appears to be a constructive user of the WTO dispute settlement system.

As an interesting footnote to this discussion of China’s participation in the WTO dispute settlement system, it should be noted that China put forward several candidates in 2006 as potential replacements on the Appellate Body for Justice John Lockhart who died in January 2006 before completing his term on the Body. With a short history of their country’s membership in the WTO and a still rather limited participation in dispute settlement, Chinese authorities probably did not expect to succeed in this bid for a place on the Appellate Body; however, it seems clear that China was nevertheless sending a message to the effect that it intends to be represented on the Appellate Body in the future.

### **China in the WTO Doha Round**

China is a developing country and notwithstanding the tremendous economic development witnessed since its accession to the WTO, it remains a country where its economic interests frequently align with those of other developing countries. At the same time, China is very different from other developing countries. China has a much greater stake in the health of the global trading system than does India, for example. China’s global production share is expanding exponentially, with Chinese producers now making 20 percent of the world’s refrigerators, 30 percent of air conditioners and televisions and fifty percent of all cameras. Monthly manufactured exports from China have grown from \$20 billion a month when China joined the WTO to \$80 billion a month today. Since 1990, this export-driven growth in China has lifted 400 million people out of poverty. By comparison, India – which has been a member of the GATT-WTO system since 1947 – accounts for considerably less than one percent of global trade in goods and services.

After spending so much time and effort on joining the WTO, and with so much at stake in terms of the continuing insurance policy it has by virtue of the WTO rules, it would have been reasonable to expect that China would have played a leading role in the WTO Doha Round. It has not. In fact, China’s role in the Doha Round negotiations is generally regarded as disappointing by most observers who believe there is merit in the WTO system.

China as a country commands a great amount of attention on the world stage and has great influence with developed and developing countries alike. China, if it clearly articulated its views as the views of China and made clear that others' positive reactions to those views was important in Beijing, could exert tremendous influence in the Doha Round. But that is not the way that China has behaved. China's behavior in the Round has been disappointingly reticent and has contributed to the poor state of play in the Doha Round.

Some observers have attempted to explain this low profile as a strategic decision on the part of China. By playing an active and high profile role in the WTO, China could be expected to draw attention to its own policies, some of which might then form targets for other trading partners. China, they argue, is still digesting earlier reforms and has no desire to enter into important new commitments that might be forced on it by negotiating partners in the context of the Doha Round.

China's competitiveness has made its manufactured exports practically ubiquitous in most markets and, at home, it seems clear that the concessions made by China in the course of its accession to the WTO have not led to a situation where imports from other countries are creating difficulties for Chinese industries. In fact, it is well documented that the vast majority of Chinese manufactured imports are not imports for final consumption in China but, in large part, imports of parts and components that will form part of products eventually exported by Chinese firms to other markets. In the light of this situation, shouldn't China be supporting greater openness in foreign markets through reduced trade barriers? One would think so, but that is not what has happened.

As late as mid-June, 2006 – only about a month before the situation in the Doha Round was recognized as so serious that negotiations were suspended – China sponsored a proposal in the industrial market access negotiations that would allow it, and other recently acceded Members of the WTO to escape the brunt of liberalization and undertake less-deep reductions in industrial goods tariffs on the grounds that countries like China had only recently "paid" in trade liberalization and should not have to pay again so soon. This proposal would also exclude many tariff lines from any cuts whatsoever and allow recently acceded members to use a different coefficient in the implementation of the tariff cutting formula than that used by other developing countries.

To make matters worse, the proposal would permit recently acceded Members to exempt some percent of their tariff lines from any cuts at all and to apply less than the agreed formula tariff cuts to another defined percentage of their tariff lines. The principal beneficiaries of the Chinese proposal – apart from China itself – would be Chinese Taipei, Saudi Arabia, Ecuador, Croatia, Macedonia, Georgia, Jordan, Moldova, Armenia, Kyrgyzstan, Mongolia and Panama. Apart from Chinese Taipei, none of these WTO Members is even close to being in the same league as China and the notion that China should be allied with this group is hard to accept.

On agricultural trade issues, China has allied itself with the members of the so-called G-20 group of developing countries. The most vocal spokesmen for this group are Brazil – which effectively leads the group – and India. China has taken a back-seat supporting role in the G-20. This is not a good place for a leading country like China to be. Brazil will always look out for its particular export interests in agriculture and these interests are very different from China's in the Doha Round. India – with its decidedly protectionist approach to agriculture – is an impediment to meaningful policy-making in the group and the Indian negotiators have gone out of their way to antagonize other major trading nations with their performance in the so-called G-6. How can China sit back and allow its trade interests to be handled by Brazil and India?

Make no mistake about it. What does happen or does not in the G-6 group will determine what happens on agriculture in the Doha Round and what does or does not happen on agriculture will determine what happens generally in the Round. So letting Brazil and India represent its interests in the G-6 is tantamount to allowing Brazil and India to handle China's interests in the WTO Doha Round more broadly. This cannot be a good idea. China has different interests than Brazil and India and China is far more dependent on a successful WTO negotiation and the overall health of the system than are either Brazil and India.

In an article published in *The Australian* on August 7<sup>6</sup> the author reported that Beijing met the demise of the Doha Round (the suspension of negotiations) with a "shrug". The reporter speculated that this casual attitude is curious given Beijing's stake in the system. Later in the article, he speculates that Chinese officials might believe that they can obtain what additional market access they want through bilateral and regional trade agreements. But this could be a serious strategic mistake for China.

In international trade policy, power rests with major importing countries – not with the exporters. Major importing countries can always threaten to cut off the markets that are so important to exporters. China today is both an important exporting power and a major importing country – but it is not so important as an importing country in those bilateral relationships where its own exports are concentrated – for example, in the United States. The point to make here is that China needs a healthy WTO to keep markets like the American market open to it more than it needs free trade agreements to secure additional new markets.

Neglecting the WTO negotiations or allowing them to founder under the "leadership" of Brazil and India will have serious negative repercussions for China if this undermines China's WTO insurance policy. China can no longer afford to have its affairs in the WTO effectively managed by others and nor can China afford the luxury of pretending it is just another developing country that should be treated specially because it has only recently entered the WTO club. The world trading system finds itself on dangerous ground and the ground is more dangerous for China than it is for many other players in this game.

### Concluding Thoughts

It is clearly not an easy task to attempt to reach conclusions about the past five years and China's participation in the global trading system. The WTO is complex, China is a huge and varied country and there are hundreds of political and economic dynamics at work in the Doha Round negotiations. With all this as background, and with appropriate caveats in place, it is still possible to wrap up this analysis with some concluding remarks.

China has not behaved in an overly aggressive manner since it joined the WTO and, in fact, the record shows that in implementing its commitments and participating in the general work of the WTO and its committee structure, China has been a reasonably active and constructive Member of the Organization. This is good news. China's entry into the WTO has not made the WTO a different organization than it would have been and China has used the WTO as an important external influence to bring about critical domestic reforms.

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<sup>6</sup> "Doha failure Beijing's chance", Rowan Callick, in *The Australian*, Monday, August 7, 2006, page 26.

In dispute settlement, China has played a conservative and constructive game. It's not surprising that a major trading power with China's export capacity and huge internal market should get into "trouble" from time to time. When this has happened, China appears to have made a real effort to resolve disputes before they need to go to formal adjudication in the system. This is a very good way in which to manage one's legal obligations in the WTO system. China has also been constructive and conservative on the other side of dispute settlement. It has brought relatively few cases against other WTO Members but where it has, the action seems to have been well thought out ahead of time.

All of this sounds very good, but what good is it to China if the WTO system falls apart? The final collapse of the Doha Round could spell the end of the WTO as an effective manager of the global trading system and this would be very bad news for China. China cannot afford to react to the collapse of the negotiations with a "shrug". Instead, China should recognize that its own future prosperity depends upon this negotiation being a success and China must act accordingly.

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