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Tumult in the Trading System

The China Paradox, Declining US Institutional Power, and the Crisis at the WTO

KRISTEN HOPEWELL

On the twentieth anniversary of China's WTO accession, there has been considerable discussion of the failure of the WTO to transform China in the ways many scholars and policymakers expected. At the time of China's accession, it was widely assumed that China's membership in the trade body – by fueling exports, growth, and economic development – would help to foster greater political and economic liberalization within the country. Instead, however, just the opposite has occurred. Despite an extraordinary boom in China's exports, which has in turn fueled remarkably rapid economic growth and development, after an initial period of relative opening, China has more recently gone in the opposite direction of rising authoritarianism and greater state intervention in the economy (Pearson et al., 2021; Weiss, 2019).

If the conventional wisdom was wrong about the impact of the WTO on China, it has been equally wrong about the impact of China on the WTO. In contrast to prevailing expectations that China would be smoothly incorporated into global trade governance, the rise of China – and the corresponding decline in the relative power of the US – have created serious problems for the functioning of the multilateral trading system. The WTO's core negotiation function has collapsed, as evident in the breakdown of the Doha Round and the repeated failure of subsequent negotiating efforts. Its dispute settlement and enforcement mechanism is in jeopardy amid the US blockage of Appellate Body appointments. The US has abandoned its traditional leadership role in the multilateral trading

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system, turning away from trade multilateralism in favor of aggressive unilateralism, arbitrarily imposing tariffs on its trading partners, and launching a trade war with China. The rules-based multilateral trading system is now in danger of collapse.

China's rise has precipitated a crisis within the multilateral trading system. Many commentators have blamed the current crisis on the inability of the WTO to adequality address China's model of state-sponsored capitalism (Petersmann, 2019; Wu, 2016). But that framing of the problem is, I argue, potentially misleading. The primary complaints that the US and others have about China's trade policy – such as its use of industrial subsidies, forced technology transfer, intellectual property violations, and so forth – are not unique to China's more heavily state-controlled economy. Instead, these are typical features of the developmental state, commonly deployed by states seeking to catch up with more advanced economies and used by most successful late developers. The more fundamental conflict thus centers on how the multilateral trading system deals with a developing country that is also an economic powerhouse.

The question of how China should be classified and treated under global trade rules has become an acute source of conflict in the trade regime. The *China paradox* – the fact that China is simultaneously both a major economic heavyweight as well as a developing country – has created significant challenges for global trade governance. Developing countries are afforded special status in the multilateral trading system, and allowed greater policy space for state intervention to foster economic growth and development, including "special and differential treatment" in WTO agreements. But extending such status to China has become increasingly controversial as its economic weight has grown. The US and other advanced-industrialized states fiercely object to providing special treatment to a country they view as a major economic powerhouse and competitor. This fundamental conflict over what scope China should be allowed for a developmental state has paralyzed global trade governance and led to a breakdown in rule-making. It was a central factor in the collapse of the Doha Round, and it has remained an acute and persistent source of conflict in subsequent negotiating efforts at the WTO since then (Efstathopoulos, 2016; Hopewell, 2016; Narlikar, 2020; Sinha, 2021; Weinhardt, 2020).

At the same time, the rise of China and other emerging powers has sharply curtailed the US's "institutional power" (Barnett and Duvall, 2005) – the ability to shape global institutions and rules to guide, steer and constrain the actions of others. The US constructed the GATT/WTO, which served as a channel for the projection of American power, and its rules have reflected US primacy. Now, however, the rise of China has significantly constrained the US's power over the core institution and rules governing trade. The US's ability to dominate global trade governance and write the rules of global trade has greatly diminished, leading to an erosion of American support for the multilateral trading system it once created and led.

I Power Shifts and the Global Trade Regime

Upon China's accession to the WTO, the prevailing expectation was that China would be smoothly integrated into the US-led liberal international economic order because China has benefited from the existence of that order and has an interest in maintaining it. It was assumed not only that the multilateral trading system would continue to function effectively but also that the system would in fact be strengthened by the inclusion of China, given its growing importance in international trade and the global economy more broadly. The conventional wisdom – both at the time of China's accession and in the ensuing years of its emergence as a major economic power – has been that China is a supporter of, and would therefore seek to maintain, the international economic order that has facilitated and enabled its rise (Cox, 2012; Nye, 2015; Snyder, 2011; Xiao, 2013). Many have argued that China's objectives are fundamentally status-quo-oriented and system-supporting, and that its rise is accordingly "not threatening to the order's basic arrangements or principles" (Brooks and Wohlforth, 2016: 100; see also Kahler, 2010). In an era of global economic interdependence, the assumption that all states have an interest in maintaining the system has led many to conclude that the US and China will find ways to cooperate and jointly participate in the management of the international economic architecture, and collective action will prevail to preserve an open, liberal trading order (Cox, 2012; Ikenberry, 2011; Nye, 2015; Snyder, 2011; Xiao, 2013).

For many, a key factor in determining whether power shifts will result in conflict or cooperation is whether the US and other established powers adapt to the rise of China and other new powers by integrating them into existing institutions and their decision-making structures – meaning giving China and other emerging powers a seat at the table that reflects their economic weight and allowing them to assume a leadership role in global economic institutions like the WTO (Kahler, 2016; Paul, 2016b; Zangl et al., 2016). Many have argued that the future of global economic

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governance hinges on the willingness of the US to redistribute authority, make room for rising powers like China, and develop a system of shared leadership that accommodates their demands for greater voice and authority (Drezner, 2007; Ikenberry, 2015; Zakaria, 2008). The liberal international economic order can be maintained, it has been argued, if rising states are welcomed and incorporated into the power structures of its constitutive institutions. Much is therefore believed to rest on the established powers' willingness to make adjustments to accommodate rising powers: China will "actively seek to integrate into an expanded and reorganized liberal international order," provided that the US and other Western states act to reform global institutions to make room for China (Ikenberry, 2011: 344). Incorporating China and other rising powers into multilateral institutions like the WTO has been seen as a means to lock in their support for the global economic order (Drezner, 2007; Zakaria, 2008), while renewing and strengthening multilateralism by making those institutions more inclusive, representative, and legitimate (Vestergaard and Wade, 2015; Warwick Commission, 2008; Zoellick, 2010).

Existing international relations scholarship has thus assumed that if rising powers are supporters of established governance institutions and successfully incorporated into their decision-making structures, then those institutions will continue to function smoothly and effectively (Ikenberry, 2011; Paul, 2016a). However, in the case of the WTO, China was incorporated into the institution and subsequently became part of its core power structure. Moreover, as one of the prime beneficiaries of the liberal global trading order, which has enabled the boom in its exports that has propelled its extraordinarily rapid economic growth and development, China has an interest in maintaining the established trading order (Breslin, 2013; Gao, 2015; Quark, 2013; Scott and Wilkinson, 2013). Yet, China's rise has nonetheless proven profoundly disruptive to the WTO, leading to the breakdown of the institution's core negotiation function. The central cause of this breakdown is an intractable conflict over how China should be treated in the multilateral trading system and what scope it should be allowed for a developmental state.

II The China Paradox

China's rise represents a new bifurcation of economic power and development status in the trading system. Paradoxically, although China is now one of the world's dominant economic powers, it nonetheless remains a developing country. This seeming contradiction between

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China's economic might and its level of development has created significant challenges for the WTO.

As the world's second-largest economy and its biggest trader, China has emerged as a core center of global economic activity. It is widely projected that China may soon overtake the US as the world's largest economy. Indeed, measured at purchasing power parity (PPP) rates, China's GDP ($27 trillion) has already surpassed the US ($23 trillion).[1] China has replaced America as the top manufacturer and exporter, with export volumes that now vastly exceed those of the US ($2.5 trillion versus $1.7 trillion). Nearly two-thirds of countries trade more with China than the US (Leng and Rajah, 2019). China has become the largest market for many commodities and consumer goods, home to many of the world's biggest corporations, and a massive source of outward investment, aid, and lending. It is also establishing itself as the dominant player and technological leader across an increasing range of industrial sectors.

Despite its emergence as an economic powerhouse, however, China continues to face significant development challenges. China's per capita income, for example, is only 16% of that of the US (with a per capita GNI of just $10,550 compared to $64,550 in the US).[2] Compared to the world's other advanced economies, China is thus at a significantly lower level of economic development, measured in terms of average incomes. Even if China crosses the World Bank's threshold for a "high-income country" (currently defined as a per capita GNI of $12,695) in coming years, it will still continue to lag far behind the US and other advanced economies. One of China's key overarching goals is to ensure its continued economic development (Gao, 2023), in order to raise its per capita income levels and bring them closer to those in developed countries. It faces immense challenges, however, in trying to do so. These include the challenges of trying to escape the middle-income trap; fostering industrial upgrading to move up the value chain into higher-value-added activities; a rapidly aging population and demographics that are increasingly unfavorable to economic growth; extraordinarily high rates of inequality, especially between rural and urban areas; inadequate social safety nets; relatively low levels of education and human capital, resulting in a massive population of low-skilled, underemployed workers; and rising wages combined with increasing competition from lower-wage countries for low-skilled manufacturing (Rozelle and Hell, 2020). The right to development is recognized

[1] IMF Data, 2021.
[2] IMF Data, 2021.

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by the United Nations as a universal human right,[3] and denying the Chinese population – which includes 600 million people living in poverty on less than $1900 per year (Kuo, 2021) – the right to continued economic development would be a profound injustice.

But given its paradoxical status as both a major economic power and a developing country, the question of how China should be treated under global trade rules has become a major source of controversy (see also Gao, 2023). A core principle of the WTO is that developing countries should be allowed greater scope for state intervention – including tariffs, subsidies, and other trade policy tools – to promote their economic development. This often takes the form of "special and differential treatment" (SDT) providing various flexibilities and exemptions from WTO rules (Weinhardt, 2020). There are no established criteria for determining what constitutes a "developing country" at the WTO. Instead, states are allowed to self-designate as developing countries in order to access SDT (Eagleton-Pierce, 2012). China insists that, as a developing country, it is entitled to SDT. However, for the established economic powers, making largely one-sided concessions in opening their markets without equivalent concessions from China is a non-starter. Instead, the US, EU, and others insist that China must take on greater responsibility commensurate with its role as the world's second-largest economy – meaning undertaking greater commitments to liberalize its market and accept disciplines on its use of subsidies and other trade-distorting policies.

China's rise has thus heightened the tension between two core principles of the multilateral trading system. The first is the principle of reciprocity – that trade negotiations should take place based on a reciprocal exchange of concessions, with participants gaining roughly equivalent benefits or, conversely, incurring roughly equal costs (Brown and Stern, 2012). Closely related to this is the notion of creating universal rules – at least for the world's major trading states – with rights and obligations applying equally to all participants. The principle of reciprocity and universality, however, coexists somewhat uneasily with a second key principle of the trading system – preferential treatment for developing countries. The latter stems from the recognition that equal treatment is not equal for countries at different levels of development. Dating back to Alexander Hamilton's (1790) call for the US to adopt infant industry protections to enable the expansion of its manufacturing sector in the context of British

[3] The US was the sole country to vote against the 1986 *Declaration on the Right to Development* in the UN General Assembly.

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industrial supremacy, there has been skepticism about free trade as a path to development and the capacity of developing countries to catch-up with more advanced economies without interventionist trade policy measures such as tariffs and subsidies.

SDT is based on the principle that developing countries should not be expected to engage in a reciprocal exchange of concessions with more advanced economies, or assume the same obligations (Hannah and Scott, 2017). Instead, rather than universal rules applying equally to all countries, countries at lower levels of development should be granted greater flexibility (or "policy space") to protect their domestic markets and promote the development of their exports, firms, and industries, as well as given preferential and non-reciprocal access for their exports to developed country markets (Narlikar, 2020; Singh, 2017). SDT is seen as an important means for the WTO to address the needs of developing countries and aid in fostering global development. While the notion of providing additional policy space to developing countries has never been uncontroversial (Hannah et al., 2017), with the rise of China as a major economic power that is also a developing country, it has now emerged as a central source of conflict within the trading system.

The conflict rests on whether the rules should be universal and concessions reciprocal, or China should have access to SDT in recognition of its status as a developing country, along with continued scope for state intervention to promote its economic development. At the heart of this conflict are competing interests, as well as ideas of fairness. From the perspective of the US and other advanced-industrialized states, fairness means a level playing field undistorted by state intervention, with universal rules applying equally to all and the reciprocal exchange of concessions in multilateral trade negotiations. But from China's perspective, what those states define as a level playing field is, in fact, one that serves to perpetuate their industrial and economic supremacy.

For China, it is considered vital to maintain the policy space needed to engage effectively in industrial policy and foster industrial upgrading, in order to continue its process of economic development and avoid becoming stuck in the middle-income trap. China's development model rests on an active state engaged in supporting the competitiveness of national firms and industries and helping them to move up the value chain into higher value-added activities thereby boosting growth, incomes, and the quality of employment (Lin and Chang, 2009; Stiglitz et al., 2013). An interventionist state remains central to its strategy for continued development, as evident in its Made in China 2025 industrial policy program (Ban and Blyth, 2013;

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Hopewell, 2018). China's emphasis on state intervention is backed by the experience of other successful late developers (Chang, 2002).

Indeed, even the US and other advanced-industrialized states relied on state intervention and employed a range of protectionist policies during their own process of economic development (Kupchan, 2014). This included using tariffs and subsidies to foster the growth of infant industries and sequence their integration into the global economy; aggressively adopting technology from more advanced countries; and controlling the inflow of foreign investment to direct it toward the goals of national development (Chang, 2002; Gallagher, 2008; Wade, 2003). Moreover, even from a position of global economic dominance, the US has continued to deviate from the principles of free trade and make use of protectionism when it serves its interests (Block and Keller, 2011; Schrank and Whitford, 2009; Weiss, 2014). From China's perspective, in seeking to preserve the scope for state intervention to promote its industrial development, it is simply seeking to follow in the footsteps of the US and other advanced-industrialized states, while those countries are seeking to "kick away the ladder" by preventing China from using many of the same policy tools that were vital to their own growth and development (Chang, 2002; Stiglitz and Greenwald, 2014).

However, while China remains a developing country and continues to face significant development challenges, it is now an extremely large and immensely powerful force in the global economy and is seen by the US and many other advanced economies as a major competitive threat. The justification for allowing developing countries greater policy space is to enable them to catch up with more advanced economies. But opponents argue that China has gone beyond "catching up" to crushing its established competitors in many industries. Rail equipment – which has been prioritized as a key strategic sector under China's Made in China 2025 program – provides an illustration. After years of receiving subsidized financing to undercut its competitors and facilitate its global expansion, China's state-owned CRRC now dominates the global rail industry, with annual revenues of $34 billion, dwarfing its rivals, Germany's Siemens (with $10 billion in annual revenue), France's Alstom ($9 billion), Canada's Bombardier ($8 billion), and the US's GE ($4 billion) (Hopewell, 2021a). Seeking to better compete with CRRC, Siemens, and Alstom attempted to merge in 2018–19, but the merger was blocked by EU competition authorities, while both Bombardier and GE have been forced to sell off their rail businesses. Access to cheap, subsidized loans similarly facilitated the global expansion of Huawei, which is now the world's largest telecoms equipment company and the global leader in 5G technology (Hopewell, 2021a).

This clash between US demands for reciprocity and universal rules, on the one hand, and China's demands for special and differential treatment as a developing country, on the other, was at the center of the Doha Round breakdown, and it has remained an enduring issue of conflict severely impeding the WTO's negotiation function. But this dispute goes beyond SDT, narrowly defined. It is also more broadly about what commitments China should be expected to assume, how much space China should be allowed for state intervention to promote continued economic growth and development, and whether China should be forced to accept new disciplines or restrictions on its use of industrial policy more broadly.

III Breakdown of the WTO's Negotiation Function

The dispute over how China should be treated under global trade rules has played a central role in the breakdown of the WTO's negotiating function, starting with the collapse of the Doha Round. Extensive SDT for developing countries was a key promise of the Doha "Development" Round. The Ministerial Declaration launching the Round contained references to SDT across virtually all areas of the negotiations. These stated commitments to SDT could have proven little more than empty promises. However, over the course of the round, developing country coalitions, such as the G20 and G33, led by Brazil and India – and backed by the weight of China – transformed developing countries into a far more effective negotiating force than ever before (Hopewell, 2016; Narlikar, 2010). Consequently, developing countries were able to secure substantial SDT in the draft texts of the proposed agreement, including weaker tariff-reduction formulas in agriculture and manufactured goods, as well as substantial flexibilities.

By the latter stages of the round, the prospect of extending such extensive SDT to China in particular had become untenable for the US, provoking protests from Congress as well as business and farm lobby groups. From the US's perspective, it would be making substantial, meaningful concessions in opening its market – including significantly cutting its tariffs and its agricultural subsidies – but see little from China in return (US, 2008). As one US negotiator put it, "we'd be giving everything and getting nothing."[4] The US had become unwilling to extend that kind of

[4] Interview, Geneva, April 2009.

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less-than-full-reciprocity to a country that it now sees as a major economic competitor and an emerging hegemonic rival.

The US sought to improve the deal by securing additional liberalization commitments from China in manufacturing and agriculture. It pressed China to participate in "sectorals" (aggressive tariff reduction in specific industrial sectors) in two key areas of US competitiveness – chemicals and industrial machinery. The US also pressed China to agree not to use its special product exemptions in agriculture against specific products of export interest to the US – namely, cotton, wheat, and corn – in order to guarantee the US market access gains in those areas. The US also sought a restrictive operationalization of the special safeguard mechanism (SSM) in agriculture in order to ensure that its market access gains were not eroded.

China proved far less malleable, however, than the US anticipated. From Beijing's perspective, the US's demands were a violation of the implicit bargain struck during China's accession, where in exchange for the deep concessions China was forced to make in opening its market, it was promised that relatively little new liberalization would be required of it during the Doha Round. From China's point of view, the US was now trying to renege on its earlier promises. China also saw the US's demands as a violation of the development mandate of the Round, and the promise that the final agreement would be reached on the basis of "less than full reciprocity" in favor of developing countries. China argued that the US was now unfairly seeking to change the terms of the deal and singling it out for further tariff cuts when its tariffs were already far lower than most other developing counties. As a result, China refused to agree to the sectorals sought by the US in chemicals and industrial machinery, which are key sectors China is trying to foster as part of its industrial upgrading strategy. If it opened those sectors, relinquishing its infant industry protections, Chinese policymakers feared they would be undercut by foreign competition, impeding its continued economic development. Similarly, on agriculture, China is eager to ensure that it retains its ability to use trade policy tools to protect vulnerable (and potentially politically volatile) parts of its population – such as poor, peasant farmers – leading China to refuse to concede to US demands on agriculture, instead insisting on a maximal definition of the SSM and that it retain full use of its special product exemptions.

The Doha negotiations broke down in 2008, ostensibly due to conflict over the design of the SSM. Yet the deeper cause of the Doha breakdown was this fundamental conflict over the US's desire to "rebalance" the deal by securing greater access for its exports to the Chinese market. China stood firm, refusing to give in to the US and rebuffing its demands for additional market opening. In doing so, China showed that had sufficient power to refuse to concede to US demands that it viewed as fundamentally against its own interests. The result has been a stalemate. The Doha Round was officially declared at an impasse in 2011, and the 2015 Nairobi Ministerial Declaration acknowledged that most members now consider the round dead (Scott and Wilkinson, 2020).

The US argues that it is no longer appropriate to treat China and other large emerging economies like other developing countries. To quote a former US Trade Representative, "the size and growth trajectories of the emerging economies combined with the fact that some are now leading producers and exporters in key sectors … set them apart" (Schwab, 2011). According to the President's 2011 Trade Agenda:

> The remarkable growth of emerging economies like China, India, and Brazil has fundamentally changed the landscape … [W]e are asking these emerging economies to accept responsibility commensurate with their expanded roles in the global economy. … Countries with rapidly expanding degrees of global competitiveness and exporting success should be prepared to contribute meaningfully towards trade liberalization.[5]

The US insists that the WTO differentiate among developing countries in determining access to SDT, arguing that many emerging economies have "graduated" from developing country status and need to engage in a more reciprocal exchange of concessions. US officials and industry representatives make it clear that their primary concern is China, whose economic might and perceived geopolitical threat vastly overshadow that of other large emerging economies. The US has refused to accept new obligations unless greater liberalization is required of China and the other large emerging economies (US, 2011). Yet China staunchly maintains that, as a developing country, it is entitled to SDT and has refused to make concessions to appease the US. With the US and China at loggerheads, WTO negotiations have been beset by repeated deadlock.

Since the Doha collapse, the focus of the WTO has shifted from seeking to conclude a broad-based, comprehensive trade round to trying to craft narrower, targeted agreements on specific trade issues, such as agricultural subsidies and fisheries subsidies. Yet the same conflict over how China and other emerging economies should be classified and treated

[5] "2011 trade policy agenda and 2010 annual report of the President of the United States on the Trade Agreements Program," Office of the US Trade Representative, Washington DC, March 2011.

under multilateral trade rules has persisted and continues to impede efforts to construct new and expanded WTO rules (Hopewell, 2019).

This conflict has only grown deeper and more entrenched, with the US stepping up its criticism of allowing China and other large emerging economies to access SDT. Under the Trump administration, the issue became one of the US's chief complaints about the WTO. As a White House memorandum put it, "the WTO continues to rest on an outdated dichotomy between developed and developing countries that has allowed some WTO members to gain unfair advantages in the international trade arena."[6] Indeed, this alleged fundamental "unfairness" of the WTO became a key justification for the US to turn away from trade multilateralism and embrace aggressive unilateralism (in blatant violation of WTO rules) under President Trump.

The Trump administration used various carrots and sticks to pressure several countries – including Brazil, South Korea, Taiwan, and Singapore – to agree to forgo SDT in future WTO agreements. Brazil, for example, agreed to relinquish its claim to SDT in exchange for the US supporting its bid to join the OECD, which Brasilia views as essential for attracting foreign investment (Inside U.S. Trade, 2019). The US also unilaterally revoked access to SDT for many emerging economies under its own national trade laws. In 2020, for instance, the US removed 19 emerging economies, including India, Brazil, and South Africa, from its list of developing countries eligible for SDT under US countervailing duty (CVD) law, which allows certain developing countries to be exempt from countervailing duties if the subsidy level or import volume is below a certain threshold (Fortnam, 2020).

Insisting that WTO agreements should be "reciprocal and mutually advantageous," the US submitted a proposal in 2019 calling for an end to the practice of allowing states to "self-designate" as developing countries to claim SDT, arguing that this is outdated and "has severely damaged the negotiating arm of the WTO by making every negotiation a negotiation about setting high standards for a few, and allowing vast flexibilities for the many."[7] The US proposed that the WTO adopt criteria for SDT, whereby a country would be ineligible for SDT if it is: (1) a member of the

[6] "Memorandum on Reforming Developing-Country Status in the World Trade Organization: Presidential Memorandum for the United States Trade Representative," White House, Washington, DC, July 26, 2019.

[7] "An Undifferentiated WTO: Self-Declared Development Status Risks Institutional Irrelevance." Communication from the US. WTO General Council, February 14, 2019. WT/GC/W/757/Rev.1.

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OECD, a club of primarily advanced-industrialized states, or in the process of accession; (2) a member of the G20; (3) considered a "high income" country by the World Bank; or (4) accounts for more than 0.5% of world merchandise trade.[8] These criteria would exclude China from accessing SDT in future WTO negotiations. The US proposal also left open the possibility that additional criteria could be established to exclude countries from SDT in sector-specific negotiations.

The US has enlisted the support of other established powers, such as the EU and Japan. Collectively, as part of the Trilateral Initiative, they have made SDT one of their primary objectives for WTO reform, arguing that: "Overly broad classifications of development, combined with self-designation of development status, inhibits the WTO's ability to negotiate new, trade-expanding agreements and undermines their effectiveness."[9] Together, these states have called on "advanced WTO Members claiming developing country status to undertake full commitments in ongoing and future WTO negotiations."[10] The EU has also echoed the US in calling for criteria for SDT and explicitly singled out China as a country that should be excluded from access to SDT.[11]

For its part, however, China has refused to relinquish its claim to SDT, characterizing SDT as a "fundamental" and "unconditional right" of developing countries that is essential for ensuring "equity and fairness" in the WTO system.[12] In the words of China's Ambassador to the WTO, "we will never give up the institutional right of special and differential treatment granted to developing countries."[13] It has described any attempt to "water down" SDT or differentiate between developing countries as "a certain recipe for intractable deadlock in negotiations."[14]

[8] "Draft General Council Decision: Procedures to Strengthen the Negotiating Function of the WTO." Submission by the US. February 15, 2019. WT/GC/W/764.

[9] "Joint Statement on Trilateral Meeting of the Trade Ministers of the United States, Japan, and the European Union," New York, September 25, 2018.

[10] Ibid.

[11] Trade Policy Review, European Commission, Brussels, February 18, 2021, p. 6.

[12] "The Continued Relevance of Special and Differential Treatment in Favour of Developing Members to Promote Development and Ensure Inclusiveness." Communication from China, India, South Africa, Venezuela, Laos, Bolivia, Kenya and Cuba. General Council, February 28, 2019. WT/GC/W/765/Rev.1, p. 11. "Statement on Special and Differential Treatment to Promote Development." Co-sponsored by the African Group, Bolivia, Cambodia, China, Cuba, India, Laos, Oman, Pakistan and Venezuela. WT/GC/202/Rev. 1, October 14, 2019.

[13] "WTO Reform from the Perspective of Developing Countries," Speech by Ambassador Zhang Xiangchen, WTO Reform Seminar, Pune, India, February 29, 2020.

[14] WT/GC/202/Rev. 1.

This conflict over how much policy space China should be allowed under WTO rules has moved beyond SDT to calls from the US and other advanced-industrialized states for reforms of the WTO to reign in China's interventionist state and constrain its scope for developmentalist industrial policy. Under the Trilateral Initiative, the US, EU, and Japan have pushed to create stronger WTO disciplines on industrial subsidies, state-owned enterprises, and forced technology transfer – all of which are targeted at China. The established powers have proposed changes to WTO rules to expand the list of prohibited industrial subsidies and establish rules to address subsidies that cause overcapacity. The Trilateral Group has also proposed shifting the burden of proof by requiring states to demonstrate that their subsidy programs are not distorting trade or contributing to overcapacity, as well as advocating more stringent notification standards for industrial subsidies. They have also called for an expanded definition of "public body," maintaining that the Appellate Body's excessively narrow interpretation of the term has undermined the effectiveness of WTO subsidy rules vis-à-vis China. Not surprisingly, China has rejected the Trilateral Group's proposals, which are specifically intended to restrict the very policies Beijing sees as essential to continuing its process of economic development and industrial upgrading. For China, the reforms proposed by the Trilateral Group are evidence that the established powers are trying to block its rise by denying it the tools necessary to catch up with the world's most advanced economies. Once again, this fundamental dispute over how China should be treated in the trade regime and what scope it should be allowed for a developmental state has resulted in an impasse.

IV The Decline of the American Hegemon's Institutional Power

In international relations theory, it is rising powers that are expected to be the revisionist states – those seeking to change the rules of the system to better reflect their own interests – while the hegemon seeks to defend the existing order and maintain the status quo (Gilpin, 1981; Kirshner, 2009). Yet within the trading system, China is not a revisionist actor, in the sense of an actor seeking to alter the established rules of the game. On the contrary, China is broadly satisfied with the existing system of global trade rules, which has enabled its remarkable economic rise by providing access to global markets, while still allowing considerable scope for its interventionist state policies to facilitate economic development, industrial upgrading, and catch-up (Hopewell, 2016). China thus has no desire to change the rules – in fact, just the opposite, it is eager to maintain the status quo. Instead, if anything, it is the US that has become the "revisionist" state in the global trade regime, dissatisfied with the inability of the WTO system and its existing rules to adequately address China's trading practices. The US has therefore sought to alter the rules to eliminate China's ability to claim special status as a developing country as well as to better discipline its heavy industrial subsidies and other interventionist trade policies, which the US fears are being used to erode its economic dominance. But the US has been unable to force China to capitulate to its demands or accept its desired new rules.

Until now, a distinct and defining aspect of American hegemony has been its dominance of international institutions. Emerging from the Second World War with an overwhelming preponderance of power, the US used its primacy to construct a new and unprecedented institutional order that reflected and reinforced its primacy. The WTO – as "a constitution for the global economy" (Director-General Ruggiero, cited in McMichael, 2004: 166) – was a core pillar of this American hegemonic order, which some have called the "American imperium" (Katzenstein, 2005) or the US's "informal empire" (Panitch and Gindin, 2012; Wood, 2005).

Rule-making power is a crucial aspect of hegemony: a hegemon is powerful enough to maintain the rules of the system and "play the dominant role in constructing new rules" (Keohane and Nye, 2011: 37). For over half a century, the American hegemon dominated the GATT/WTO; it had sufficient power to play the dominant role in writing and enforcing the rules of the global trading system, including driving forward the ongoing process of constructing new rules to govern international commerce. But its rule-making power has now been impeded by China, an emerging challenger that has been unwilling to defer to American hegemony in global trade governance. The US and China are engaged in a struggle over the rules of the game – and specifically whether, and how, the rules will apply to China. China has been able to persistently block the US from achieving its objectives in global trade governance. Despite intense pressure, the US has been unable to force China to undertake greater commitments to liberalize its market in the Doha Round, subsequent post-Doha negotiations, or ongoing WTO reform efforts.

To quote Christopher Layne (2018: 110), "in international politics, who rules makes the rules." In short, China's rise has profoundly disrupted the US's ability to make the rules. Even if the US maintains a preponderance of power in the international system, its capacity to direct and steer global trade governance – which until now has been a defining feature of its hegemony – has been severely diminished. In other words, if the US once "ran the system" as John Ikenberry (2015) puts it, that has now been profoundly disrupted: China has proven a significant counterbalance to US power that has substantially weakened American dominance within the WTO.

V Conclusion

It has frequently been assumed that if rising powers are supporters of established governance institutions like the WTO and successfully incorporated into their decision-making structures, then those institutions will continue to function smoothly and effectively. Yet analysis of China's impact on global trade governance refutes this view. As the world's largest exporter, China is a beneficiary and supporter of the established trading order. In addition, China has been integrated into the WTO and incorporated into its core power structure, given a seat at the table that reflects its economic weight. The result, however, has been a direct confrontation between the US and China over the rules of global trade that has paralyzed the institution. The clash between the trading system's two dominant powers has produced a repeated stalemate, which has effectively brought the core negotiating function of the WTO to a halt. This was evident in the breakdown of the Doha Round, and the same fundamental conflict between the US and China has persisted since the Doha collapse and continues to impede the construction of global trade rules, as well as efforts to reform the institution.

This conflict centers on how China should be treated in the trade regime. Under the rules of the WTO, developing countries are generally allowed greater scope for state intervention to foster economic growth and development. Yet while China remains a developing country, it is also now a major economic power. This paradoxical nature of China's position in the global trading system has created serious challenges for global trade governance. China's rise represents a new and unprecedented bifurcation of economic power and development status. Despite its considerable aggregate economic might, in terms of the average standard of living of its population, a vast gulf still separates China from the US and other advanced-industrialized states. From China's perspective, protecting its policy space – including its ability to use interventionist trade measures such as subsidies – is essential to continuing its process of economic development. China's interest in maintaining its scope for continued development has, however, thrown it into direct conflict with the US and other established economic powers. China maintains that, as a developing country, it should be entitled to special and differential treatment, but many states are unwilling to extend such treatment to a major economic competitor and have instead demanded universal rules and reciprocal concessions from China. Moreover, the US and other established powers have also sought to explicitly constrain China's scope to use interventionist trade policies through the creation of stricter WTO rules on industrial subsidies and other trade-distorting measures.

For most of its history, the American hegemon played the dominant role in constructing and enforcing the rules of the trading system. But the US's institutional power – its power over the governing institutions of the trading system and ability to set the rules of global trade – has been severely weakened by contemporary power shifts. US efforts to construct new trade rules in the Doha Round failed due to the rise of China and other emerging powers, who refused to defer to US power or capitulate to its demands. China has similarly blocked US attempts to constrain its policy space through the Trilateral Initiative's proposed reforms. American efforts to use the multilateral trading system to discipline China's trading practices have thus been unsuccessful, while the Appellate Body has increasingly interpreted WTO rules in ways that the US perceives as running counter to its interests. Having lost its previous dominance over the core institution and rules governing global trade, the US has grown increasingly dissatisfied with the workings of the multilateral trading system.

This is an important part of the explanation for the US to turn away from the multilateral trading system, its growing dissatisfaction with the system, and its flagrant rule-breaking. This momentous shift cannot simply be explained by the idiosyncrasies of the Trump administration or the rise of populist anti-trade sentiment that both fueled, and was fueled by, his presidency (cf. Kahler, 2020; Scott and Wilkinson, 2020). These trends both began before and have continued after the Trump administration (Hopewell, 2021b). Explanations centered on domestic politics alone are inadequate to explain the US's changing orientation towards the multilateral trading system. It is also a response to changes in the distribution of power in the international system. The US is responding not only to a decline in its structural power – that is, its relative economic might vis-à-vis a rising China – but also to a significant decline in its institutional power – its ability to dominate global trade governance and write the rules of global trade.

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