“U.S. economic nationalism and the trade war with China: Is it a threat to the WTO?”

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US trade policy: rules-based vs. power-based

Source: Mattoo and Staiger (2019a)
Key questions

- What is level and coverage of tariffs against China?
- Why protection?
- Trade war and failure of WTO dispute resolution: which came first?
Level of tariffs against China

Average US tariff rates on imports from China before and after President Trump’s acts of protection

38.6%
US tariffs toward China if it were not a member of the WTO

Source: Bown and Zhang (May, 2019)
Coverage of tariffs against China

Tariffs on almost all remaining US imports from China would raise special trade protection coverage to unprecedented level

Source: Bown and Zhang (May, 2019)
Populism to economic nationalism

- **Populism**: “anti-elite, authoritarian and nativist” (Eichengreen, 2018)
- Driven by impact of globalization on income distribution (Grossman and Helpman, 2018)
- Effect of China import shock well-documented, Autor *et al.* (2013), and Pierce and Schott (2016)
- Trade exposure contributed to polarization in US politics (Autor *et al.*, 2017)
- **Economic nationalism**: (i)opposition to free trade, (ii)laissez-faire domestically, (iii)a strong nationalist stance (Colantone and Stanig, 2018)
“China, Inc.”

- US concerns about China’s trade practices well-documented (Morrison, 2018)
- WTO case could be made against China under “non-violation nullification or impairment” (NVNI) clause of GATT (Article XXIII) (Hillman, 2018)
- Appeals to Wu (2016): China’s economy structured in ways not anticipated by WTO negotiators
- Argued only way to approach this is through “grand coalition” of countries (Lawrence, 2018)
- US unilateralism will result in “shallow” deal (Hillman, 2018), “free-riding” (Bown, 2018), and undermines WTO (Mattoo and Staiger, 2019b)
Trade war and WTO dispute settlement

- Conventional wisdom - US deliberately poked holes in WTO (Bown, 2019):
  - Chinese trade practices had to be countered
  - Anti-dumping duties had not worked
  - Safeguard tariffs would have been stopped by WTO
  - US would not win case at WTO due to “China, Inc.”

- Counter-argument – US gave up on formal dispute settlement too soon, i.e., it should have appealed to NVNI clause

- Requires Appellate Board (AB) to deal with complex interactions in non-market economy
Failure of WTO dispute settlement

- Concerns over “judicial over-reach” in AB, and emergence of principle of *stare decisis* in WTO case law (Payosova *et al.*, 2018)

- Dispute settlement will break down by end of 2019, i.e., any member will be able to block panel rulings

- Members should agree on procedures for AB to submit uncertain legal issues arising on appeal to respective WTO committees – *legislative remand*

- Emphasizes need for permanent negotiations in WTO

- Also requires US to stop “…kicking at the working leg of a limping institution…” (The Economist, December 7, 2017)
Citations


7. The Economist (December 7, 2017). “As WTO members meet in Argentina, the organization is in trouble”.


