

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

**Ian Sheldon (Ohio State University)**

**Keynote Speech**

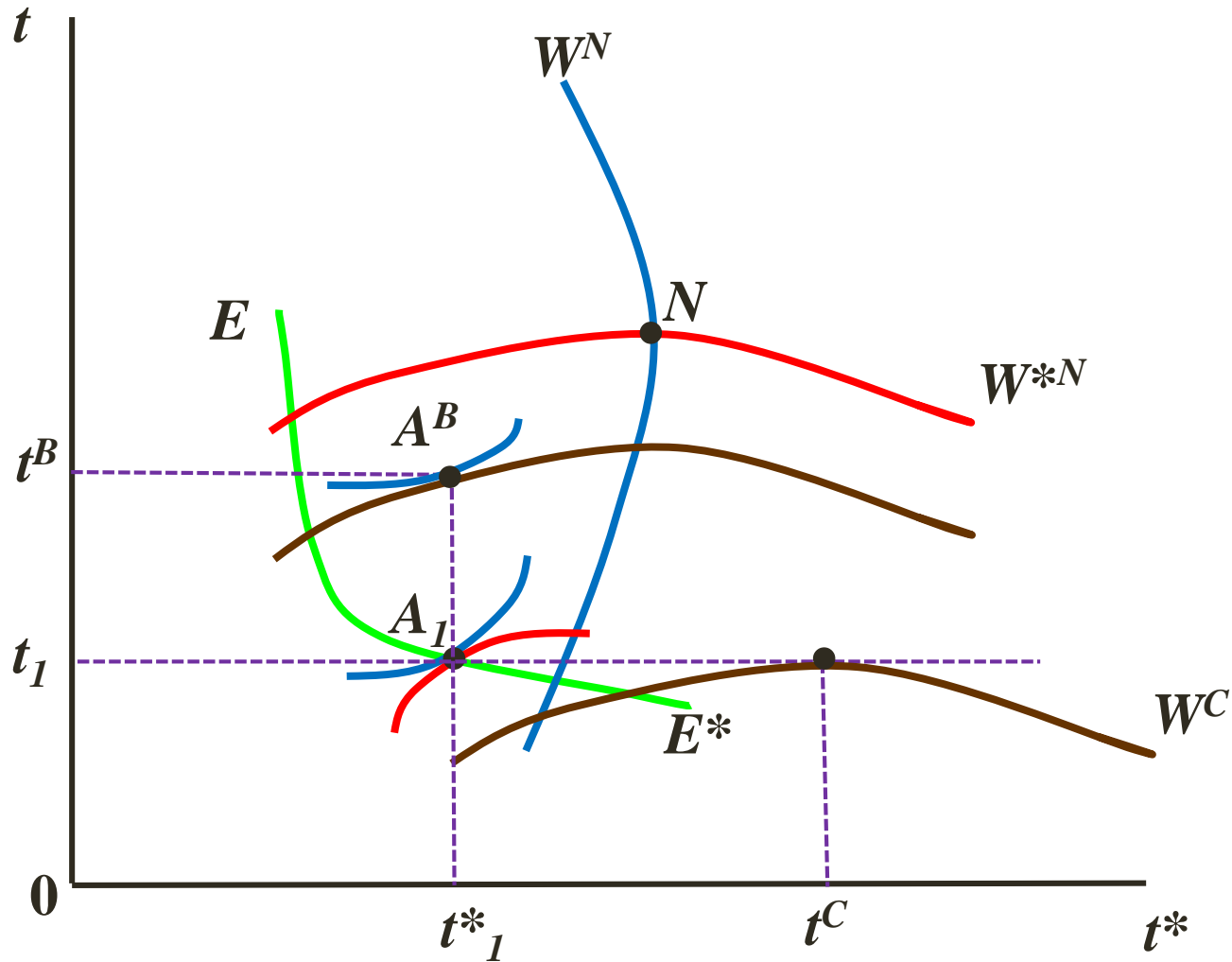
**AAEA Post-Conference Workshop**

**“Challenges, Implications, and the Future of Agricultural Trade between the U.S and China”**

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



Source: Mattoo and Staiger (2019a)

# Key questions

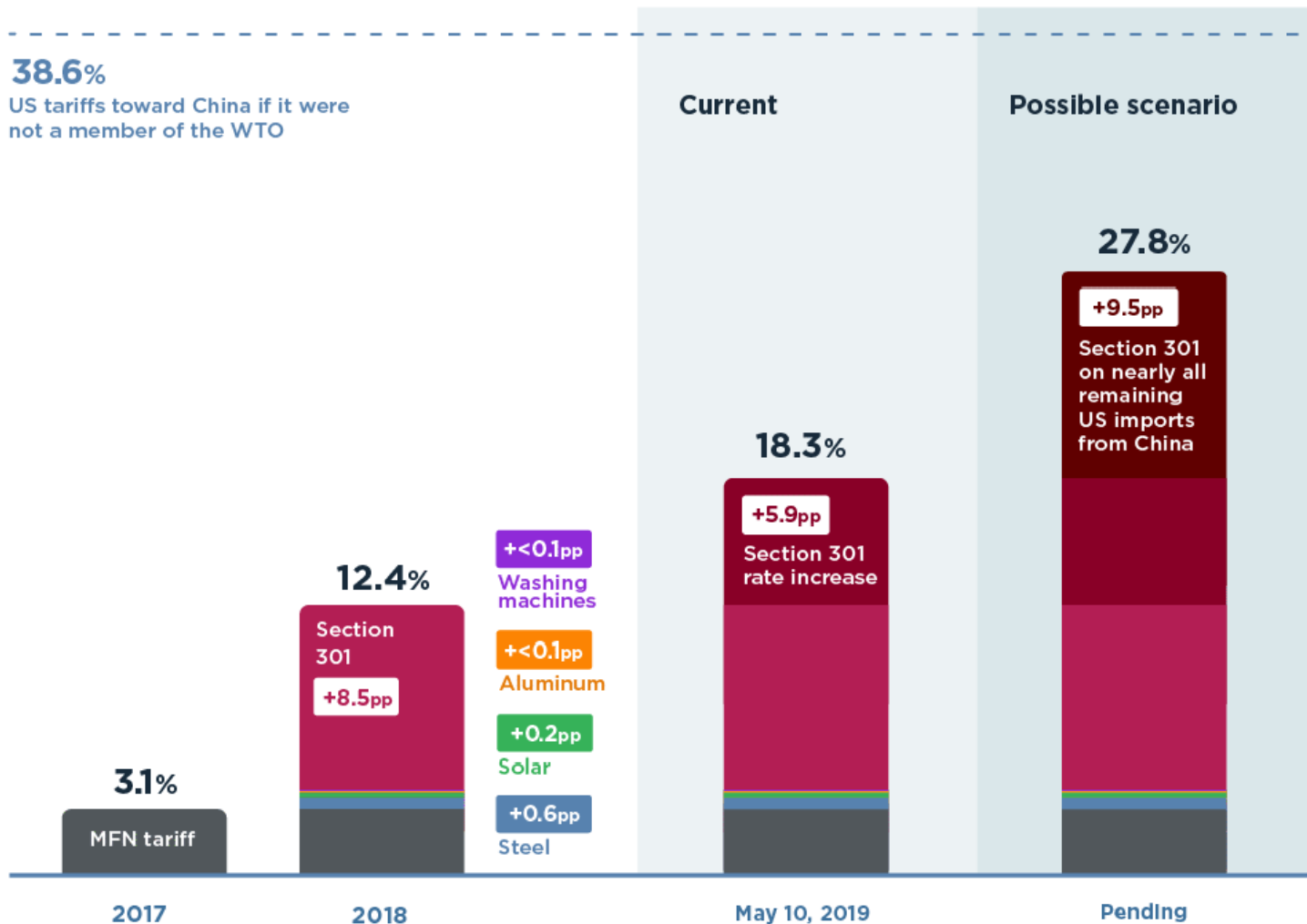
- **What is level and coverage of tariffs against China?**
- **Why protection?**
- **Trade war and failure of WTO dispute resolution: which came first?**

# Level of tariffs against China

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

**38.6%**

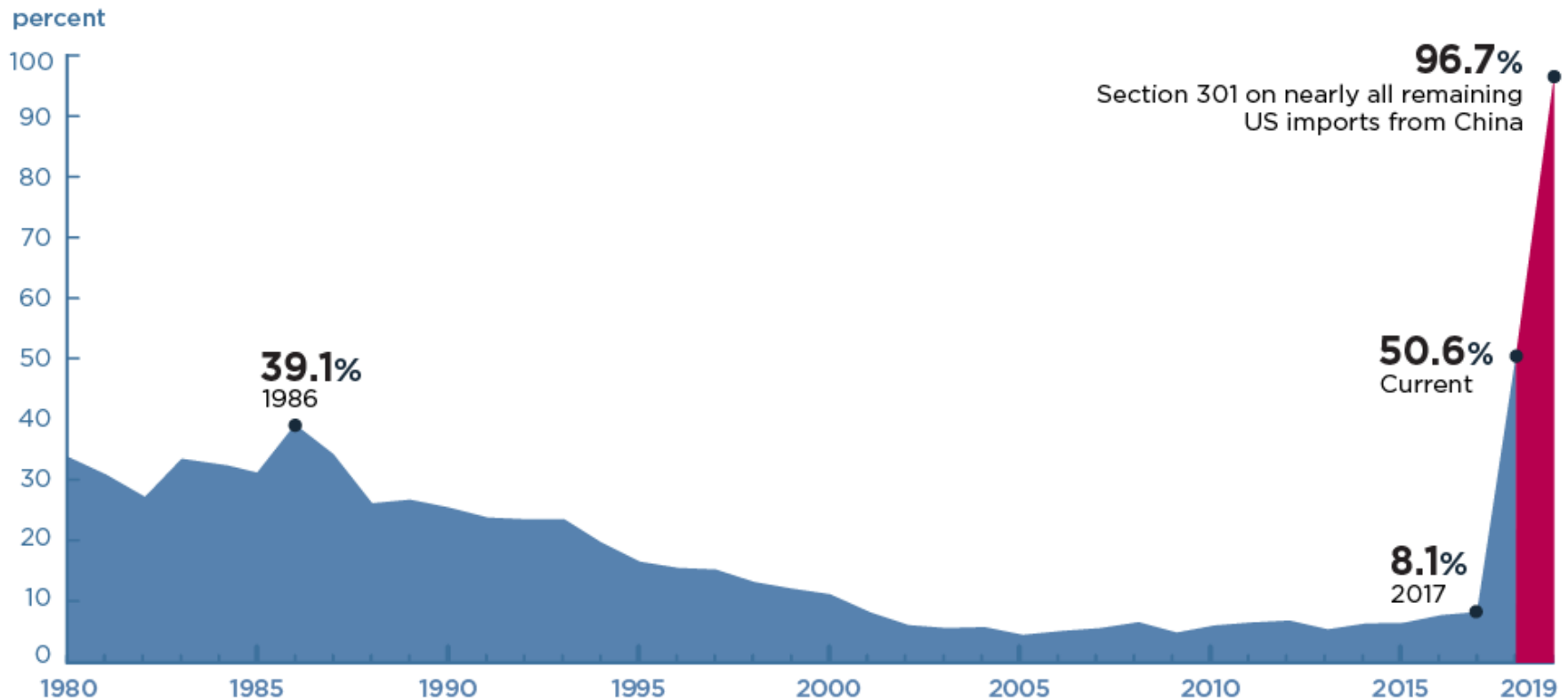
US tariffs toward China if it were not a member of the WTO



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)

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