

**China's Role in the WTO:
From Beneficiary to the Need for Leadership**

Testimony of

John S. Tanner

Chairman of the Trade Subcommittee, Committee on Ways and Means
U.S. House of Representatives

Hearing on

**Evaluating China's Present and Future Role
In the World Trade Organization**

Before the
U.S.-China Economic and Security Review Commission

Washington, D.C.

June 9, 2010

I. International Trade and National Security

I appreciate the opportunity to present testimony before this Commission on the current and future role of China in the World Trade Organization (WTO). Congress established the Commission to review the national security implications of trade and economic ties between the United States and the People's Republic of China.¹ My longstanding interest in international trade policy derives in large part from my interest in U.S. national security. I therefore greatly appreciate the important work of this Commission and its focus today on China's role in the WTO.

In my view, the expansion of rules-based trade can play a critical role in U.S. national security. I will not attempt to articulate all of the connections between trade and national security, but would like to highlight two of the most important functions. First, countries that trade with one another tend not to go to war with one another. As Cordell Hull, President Franklin D. Roosevelt's Secretary of State, observed shortly after the Second World War, the expansion of international trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war.²

Second, reciprocal and rules-based trade has the potential to make the United States more prosperous, and economic prosperity can contribute to both hard and soft influence and power in international relations. As trade and investment flows increase, so do cultural and social contacts that help buttress our foreign policies and diffuse political tensions. The United States' promotion of free trade, for example, has had great export value and transformed the world economic order.

At the same time, closer trade and economic ties do not automatically or necessarily translate into enhanced national security. Tensions between countries can grow, for example, when trade is substantially and consistently imbalanced, or the result of unfair trade practices. It is therefore important for the United States to monitor and to manage key trading relationships, and the Commission plays an important role in that process when it comes to China, which is likely to become the second largest economy in the world this year.

II. China's Role in the WTO and Global System

China has reached the status of a global economic superpower. By increasingly engaging in global trade, it has reached unprecedented, sustained growth rates and assumed increasing importance in the key economic institutions that oversee the world's markets. One school of international relations theory posits that China, as the rising power, and the United States, as the *status quo* power, will inevitably clash within the current international system. Yet our profound common interests make that outcome undesirable and less than inevitable.

Bilateral economic ties between the United States and China have expanded rapidly over the past decade, with bilateral trade reaching approximately \$366 billion in 2009. As each side relies increasingly on the health of the other for its own economic security, trade frictions will surface. But the scope and depth of those frictions will depend in large part on how China and the United States manage their relationship. For China, it must recognize that its security and economic interests are tied to the international system and reflect that understanding in the pursuit of its self-interest.

China can no longer affirm that a foreign policy predicated on a desperate need for internal development is a purely domestic matter that does not affect the affairs of others. Nor can China claim that its power and influence in international affairs is minimal or constrained due to its self-proclaimed status as a developing country. Whether China's leaders acknowledge it or not, the policies of a nation of China's size will affect the management of a peaceful, stable and prosperous world order.

¹ 22 U.S.C. 7002(a).

² Cordell Hull, *The Memoirs of Cordell Hull* 81 (1948).

But China's leaders should acknowledge this fact and assume greater responsibility to act in ways that reinforce international norms. It has been almost five years since then-Deputy Secretary of State Robert Zoellick famously called on China to assume the position of a "responsible stakeholder" in the global institutions that have helped enable the country's success and rapid development.¹ China's leadership needs to embrace this position and take on leadership roles in areas of global concern, such as energy supply, security cooperation, environment conservation, economic globalization, and international trade.

China, like the United States, has been a significant beneficiary of the largely open and rules-based international economic system. This system has played a significant role in enabling the impressive speed and scope of China's rise and provided sweeping benefits to its people. Absent organizations like the WTO, China's recent economic rise would not have been possible. By virtue of its dependence on trade and receipt of large capital inflows, China has a major national interest in the stability and effectiveness of global trade and the monetary system.

Yet China appears resistant to take an overt leadership role in global economic discussions as evidenced by its reluctance to support an ambitious and balanced WTO Doha Round. China, undoubtedly, has a vital interest in greater liberalization, which is essential to its trade-driven economy that relies on open markets for its exports. China is the world's largest exporter and the world's third largest importer. By all accounts, China should be among the greatest advocates for liberalization practices. But Chinese leaders have not played a role in the Doha negotiations commensurate with the country's economic superpower status. Leadership does not mean conceding to U.S. pressure and interests. It means helping to break deadlocks and seeking compromises that move the debate further and towards fruition. It also means engaging bilaterally with the United States to provide greater access for U.S. goods and services to the Chinese market.

China's role in the WTO similarly suggests uncertainty about embracing its global stakeholder position. Although it is commendable that China has increasingly resorted to the WTO and its dispute settlement mechanism to resolve trade frictions, its actions at home raise broader concerns about China's commitment to continued reform and the WTO's general principles. For example, it is clear that China must do more to protect and enforce intellectual property rights.

Government-initiated measures against foreign investors in China are on the rise. Over the past few years, China has implemented a range of measures . . . in technology standards, in competition law, in services regulation, and in government procurement . . . that ring of economic nationalism. China is pursuing a state-led model of economic development that favors Chinese state-owned enterprises and often limits market access for competing goods, services, technology, and investment from the US and elsewhere. The continued use of regulatory measures to give Chinese firms national or global advantages runs counter to the WTO's bedrock principles of national treatment and nondiscrimination.

Moreover, there is an inherent tension between China adamantly safeguarding the WTO's disciplines against protectionism, which it depends upon, and China's domestic industrial policies that challenge the scope of the WTO's provisions. Promoting open, competitive markets is incompatible with encouraging domination by domestic companies. Chinese policymakers hope that a state-led, discriminatory economic model can be reconciled with the demands of the global trading system and the rules of the WTO. This is unrealistic and sets a dangerous precedent that threatens to undermine the global trade architecture.

¹ "Whither China: From membership to responsibility?"; Robert Zoellick, Remarks to National Committee on US-China Relations, September 21, 2005.

As a stakeholder, China should instead deepen its commitment to the WTO's fundamental principles of transparency, national treatment, nondiscrimination, and market access. It should work to strengthen the rules that underpin the WTO. Making active use of the WTO is not enough. China must take a proactive role in defending and championing the multilateral trade principles that have propelled its own growth and success. As Zoellick stated, "Responsible stakeholders go further: They recognize that the international system sustains their peaceful prosperity, so they work to sustain the system."²

China's rise positions its leaders to create a twenty-first century economic model for other developing and emerging market economies to emulate. It has a great opportunity to demonstrate its own vision, one that attests to its status as a global stakeholder. China speaks with some authority in the developing world and consistently proclaims itself as its leading voice. Yet China's exchange rate policies do not support the trade interests of emerging economies. RMB undervaluation makes China's exports substantially cheaper, fueling competition from low quality Chinese imports that undermine the local industries of developing economies and their export platforms. These policies have helped generate the global imbalances that contributed to the financial crisis.

Chinese leaders often strategically pick and choose areas of engagement in global forums, invoking security issues as a bargaining chip in economic discussions and forcing U.S. negotiators to choose, quite awkwardly, which topics to make headway on. Yet China should share our general interest in a peaceful security environment just as much as it should in a healthy international economy. A defensive posture is at odds with China's desire for a peaceful international environment to allow focus on the country's domestic challenges. Such a focus should not preclude long-term cooperation, active participation, and leadership on North Korea, Iran, international trade, and other pressing topics.

III. The Future Global System

The international system that the United States has shaped and led throughout most of the twentieth century can remain the dominant order of the twenty-first century. China's ascendance does not need to displace the global institutions and norms in place today. As John Ikenberry comments, "The U.S.-Chinese power transition can be very different from [the hegemonic transitions] of the past because China faces an international order that is fundamentally different from those that past rising states confronted. China does not just face the United States; it faces a Western-centered system that is open, integrated, and rule-based.... Today's Western order, in short, is hard to overturn and easy to join."³

Moreover, to the extent that the current international system is imperfect, China has a vital role to play in reforming it and managing it properly. A responsible stakeholder *should* do this. And if the United States wants to retain its leadership role, our leaders must renew and support Western rules and institutions underlying the system. China will be more inclined to actively participate and work within the international system when the United States uses its power to strengthen existing rules and institutions rather than defying the rules-based system it has shaped. Giving China greater incentives for integration than for opposition will ensure a peaceful hegemonic transition and a prosperous U.S.-China relationship.

² *Id.*

³ G. John Ikenberry, "The Rise of China and the Future of the West: Can the Liberal System Survive?," *Foreign Affairs* (January/February 2008) ("Changing China"), p. 24.

