Strategic Distrust Within Sino-US Relationship Reflected in WTO Experience

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In the past two decades, the United States and China have experienced both cooperation and confrontation within World Trade Organization. Despite the ups and downs of the bilateral relationship, there has been one vital factor across time: the strategic distrust of the two major powers, which is contributed by volatility in negotiation, ambiguity in terms, violation in rules, and divergence in responsibility implementation. Furthermore, the sentiment has greatly influenced each country’s stances and attitudes towards WTO reform, especially on major issues such as marketization of state-owned enterprises, reevaluation of the status of developing countries, contraction of subsidization, and reconstruction of dispute mechanisms.

Keywords: Sino-US relation, World Trade Organization, trade negotiation

Introduction

Thirty years after the Cold War, the current world is again exposed to an upsetting atmosphere of potential polarization; only this time it is the confrontation between the United States and China. With the escalating tug-of-war between the two countries, every detail of Sino-US relation has been carefully examined, as the impact of this relationship has already upgraded beyond bilateral influence but further to a global scale, and any subtle change of it could lead to a significant impact on the entire international community. In that context, this paper takes the interaction and history of China and the United States in the WTO as the object of study to explore the core issues of contradictions in the Sino-US relationship from the perspective of a vital factor: strategic distrust. Based on that exploration, this paper attempts to contribute some theoretical and realistic inspiration to the future pathway for the development of WTO, the Sino-US relation, and the entire international community.

Background

In the last few years, with the shocking Brexit, the ongoing trade war, the upgrading Taiwan issue, and the worrying invasion of Russia into Ukraine, many incidents have shown that the fundamental faith of the international community in global cooperation is under serious attack. Increasing critics are questioning the legitimacy and influence of WTO and other international organizations, for their failure of maintaining a stable global order, and sometimes even being manipulated by the interests of major powers.

As mentioned above, in the current time of increasing confrontation and disturbance, there are implications that World Trade Organization may be facing declining influence and systematic failure. And the Sino-US
conflict is much more likely to be viewed as the crucial contributing factor, for the relationship between the two
hegemons in the world has such a profound effect that it is not only affecting each other but also the entire global
community.

In 2012, strategic distrust was first brought up by Wang from Peking University and Lieberthal from
Brookings onto the official academic level as descriptive rhetoric for the Sino-US relationship. According to their
explanation, the strategic distrust is not limited to the military but is also a sentiment rooted in contradictory
viewpoints between the United States and China: On one hand, China sees the United States as a declining
hegemon who was trying hard as possible to contain its strongest competitor (China itself). On the other hand,
although recognizing that the prosperity of China is in its interests, the United States views China as one rising
power with a lesser sense of responsibility for global issues (Lieberthal & Wang, 2012). After that, much research
has been initiated to explore its theoretical and pragmatic application (Norton, 2014; Martin & Jiang, 2018).

In the previous research regarding the effect of the Sino-US relationship on the development of WTO,
scholars are mainly focused on exploration and recommendations on future reform, but from several different
angles: (1) Some research is based on analysis of specific incidents, such as US-China trade war (Ciuriak, 2019;
Howse, 2020); (2) a few studies investigate the question from a historical perspective (Bown, 2009; Gao, 2021;
Hoekman & Mavroidis, 2021); (3) some others have explored future possibilities by incorporating opinions of
other major member states (Duesterberg, 2019; Hoekman & Wolfe, 2020; Caffarena & Gabusi, 2021); (4) another
group has paid attention to the attitudes of U.S. and China on the reform and the organization (Breslin, 2003;
Chen & Sun, 2019; Mcdonagh & Draper, 2020; Mavroidis & Sapir, 2021; Hoekman, Tu, & Wolfe, 2022); (5)
the rest have laid importance to the certain shortcomings of WTO exposed by the current situation (Adekola,
2019; Tu & Li, 2020).

As discussed above, there has been few studies consciously attempting to interpret the current predicament
of the World Trade Organization through the angle of strategic distrust between the United States and China, as
it can be an effective way of understanding the conflict between the two countries, and thus to contribute to
solving the problem of WTO.

Source of Strategic Distrust in WTO Experience

In general, looking through the Sino-US interaction in WTO, the source of strategic distrust can be mainly
divided into several directions: volatility in negotiation, ambiguity in terms, violation in rules, and divergence in
responsibility implementation.

Volatility in Negotiation

The conflicts between the United States and China in World Trade Organization dated way back to before
China even accessed WTO. Before it became an official member state, China had been waiting for 15 years,
which accounts for one of the longest periods of negotiation in the history of WTO. Considering its excessively
large trade volume, it was logical for the negotiation to take a long time. Yet, the negotiation with the United
States, which was at that time one of the major trade players of the world and with the largest market and the
loudest voice, was still viewed as the biggest challenge. The negotiation between the two countries lasted for six
years before and after, and due to the volatility of the Sino-US relationship, it has been interrupted and restarted
several times. To be more specific, at the very beginning, the United States was very prompt at encouraging
China to join WTO, based on the realization that China’s further engagement in global trade would be overall
beneficial to the development of the United States (NY Times, 2000). However, in the 1990s, the attitudes of the United States became more impatient and versatile and even threatened to terminate the negotiation, which brought great difficulties to the progress of the negotiation (Long, 2004). That change was mainly for two reasons: On one hand, a series of diplomatic incidents (such as the United States bombing of the Chinese embassy in Belgrade) that occurred at that time added tension to the situation; on the other hand, the United States was trying to strive for more benefits from essential issues of negotiation, such as the status of most favored nation (Shanghai Observer, 2021) and at the same time expected China to demonstrate more sincerity by making more commitments, while China saw the former negotiation terms as a necessary sacrifice to enter the global market, and was persistent on its baseline principles, refusing to step back for further compromise.

In total, the negotiation with the United States lasted for almost 13 years and 25 rounds. It was exactly this kind of instability and volatility demonstrated in the negotiation that partly contributed to the distrust between the two countries.

**Ambiguity in Terms**

Even after China entered WTO, it was often questioned that it was not promptly making adjustments to conform to its previous accession commitments. For example, the Office of the United States Trade Representative issued *The 2021 Report to Congress On China’s WTO Compliance* (USTR, 2022), which mainly points out that China has not yet performed its duties of transforming its state-led, non-market path to the open market-oriented trading approach, while the current system of WTO lacks binding power to prevent China from being a rulebreaker. At the same time, Chinese authorities have maintained consistency in their diplomatic address, arguing that China has comprehensively fulfilled its commitments to the WTO, substantially opened its market to the world, and delivered mutually beneficial and win-win outcomes on a wider scale (Xinhuanet, 2022a). Instead, China has argued that it is the United States that has demonstrated strong hegemonism and unilateralism when it unfairly starts the trade war and attacks the appellate body of WTO by refusing to appoint new judges, which has caused the system into a serious disorder.

Once again, the strategic distrust appeared, and both parties see the conflict as each other’s fault. In general, one of the main reasons lying on the conflict is the different understanding of the definition of certain terms and norms caused by ambiguity. To be more specific, the most fundamental controversy is how to evaluate the unique political and economic model of China. On the one hand, the United States conceived the market of China from many perspectives as far from one hundred percent open, based on the knowledge that market economies should have a free market away from political over-intervention and over-engagement; on the other hand, unfortunately, China maintains it has fulfilled its commitments as to be an open market, on account of the realization that China is implementing the model of market economy in market entities, not in the country itself (Gao, 2021). In other words, the United States and China hold different opinions on the definition of “market economy” and distinctive understanding of Chinese unique economic model of “socialist market economy with Chinese characteristics”, and the difference has reinforced the Chinese authorities’ opinion that the United States is trying to deny its unique mode of development and replace it with the mode designed by western countries, hence further increasing the strategic distrust.

**Violation in Rules**

During the past 20 years, the disputes between the United States and China have never stopped. Both countries have been constantly accusing each other of violating the rules of WTO. In fact, according to World
Trade Organization (2022), China has so far been engaged in a total of 71 cases (either as the complainant or the respondent, excluding as the third party), and over half cases were dealt with the United States. Those complaints against China were primarily about government subsidization for certain industries. By contrast, the complaints filed involving the United States as the complainant or the respondent have reached 280 cases in total, and a great portion of the complaints are related to China.

Looking through all the dispute cases, the United States had a better performance in terms of the number of winning cases. To be more specific, from 2013 to 2019, even though the United States had claimed to have been treated unfairly, its complaints against China in the totality of 23 cases had won 20 times, with three cases pending. And it also succeeded in defending itself from accusations from China, with China having only one-third victory times (Schott & Jung, 2019).

However, in terms of the quality of the winning cases, it is hard to conclude an absolute advantage in the performance of the United States, for China has won several disputes of great significance. For example, during the infamous trade war, the World Trade Organization supported China in its complaint against the United States for its exerting excessively high tariffs on exports of China. From the perspective of the United States, the decision has clarified the stance of WTO in support of China.

In addition to the fact of the U.S. breaking the rules, one thing interesting to look at is the fact that in the trade war, neither the United States nor China has been one hundred percent compliant with the rules of WTO, despite China’s persistent claim that the trade war should be totally blamed to the other party. For instance, after the United States launched the trade war in 2018, the most suitable response of China was to first file a complaint to the dispute mechanism of WTO and then wait for its feedback. Nonetheless, China made its quick response and initiated its retaliation against the United States at the very start, without the permission of WTO, which to some extent could also be viewed as a minor violation of the rules of dispute mechanism.

In summary, while both the United States and China have been active players in utilizing the dispute mechanism of WTO, they both have previous records of noncompliance and ignoring the verdict, and further demonstrated a dangerous sign of noncooperation, a worrying tendency of selective compliance, and an alarming preference of its own interests over collective benefits. Hence, this phenomenon has further confirmed previous critics about WTO being manipulated by the interests of great power, thus worsening the strategic distrust between the two countries in turn.

Divergence in Responsibility Implementation

One of the main sources of strategic distrust is the conflict of responsibility implementation (Lieberthal & Wang, 2012). To be more specific, the main concern of the United States is that with the rise of China, it seems not yet ready to be loaded with more responsibilities as a great power. On the contrary, China has long viewed this kind of expectation as the United States’ conspiracy to prevent China from focusing on its own development. One of the most symbolic signs is the protest from some established economies, such as the United States and European Union, about whether some previously-recognized developing countries (mainly directing at China) should be reevaluated their economic development and adjusted their status to developed countries.

On one hand, the United States has for many times claimed that the prosperity of China matches the interests of the United States; thus it holds an attitude of absolute welcome to China’s economic development. Nonetheless, despite understanding China’s policy of “Tao Guang Yang Hui” proposed by former political leader Deng Xiaoping (i.e., stay low key, focus more on its domestic development than global issues), the United States has
constantly complained about the insufficiency of China in all kinds of WTO issues: promotion of the human right of workers, increase of domestic market access, elimination of carbon neutrality in manufacturing industries, etc.

On the other hand, China remains alert to “conspiracy from western hostile forces”, seeing that as an intervention into China’s domestic affairs, while asserting that it has already fulfilled the requirement of being a responsible major power (Men, 2016). It is understandable for this prudence, for the United States has indeed demonstrated a sign of hostility and confrontation, especially in recent years, after Donald Trump was elected president, things have not improved even after the United States has already embraced its new president, Joe Biden. Just as the Chinese State Councilor and Foreign Minister Wang Yi addressed in the speech at United Nations General Assembly, the past few years have witnessed the most frustrating low point in the history of the Sino-US relationship (MOFA, 2022). In that context, it is natural for China to continue this strategic distrust, for there are few signals of peaceful cooperation.

What Does It Mean for WTO Reform?

The influence of strategic distrust between the United States and China demonstrated in the WTO experience has become so significant that it has not only been profound to the history and present, but also to the future development of WTO. In fact, its significance is reflected in major member states’ negotiation stances on several crucial issues of reform. Hence, the three parties’ attitudes (i.e., China, United States, and other major member states) towards some of the major topics are being discussed as follows. In addition to that, it is worth mentioning that some other member states have lined up and taken a side in either China or the United States. For example, established economies like European Union and Japan have made clear their claims by issuing joint clarifications about WTO reform together with the United States (Liu, Gong, & Li, 2020), while many emerging economies such as India, Brazil have demonstrated their support for China’s negotiation stance (Tian, Li, & Sang, 2020). Clearly, the complicated effect of the Sino-US relationship has way exceeded the bilateral scope and reached the global level.

Marketization of State-Owned Enterprises

The reform of state-owned enterprises in developing countries has been for a long time one topic of high concern in the reform negotiation of WTO and in the conflict between the United States and China. To be more specific, state-owned enterprises are expected to transfer from state-led to market-oriented, so as to eliminate the problem of non-transparency and unfair competition caused by subsidization, and thus respond to the concept of open economy.

Standing on the ground of the United States, the state-owned enterprises of China and the government intervention and dominance in those enterprises are clearly violating the transparency and non-discrimination principles of WTO, and they have made that point clear in their reform recommendations. The United States has defined the Chinese state-owned enterprises as “public bodies”, which means the activities of those entities stand for the exercise of government power, and are ultimately controlled by government commands instead of market dynamics (Ding, 2018). They thus accuse China of maintaining an economic model of protectionism and mercantilism and its failure in bearing the responsibility to lead the trend of reform in free market.

By contrast, from China’s perspective, state-owned enterprises are important components of its economic model of “socialist market economy with Chinese characteristics”, and it has demonstrated resolution of reform
in turning state-owned enterprises into independent and market-oriented economic entities since the 1990s, with an overall atmosphere in China of market economy reform (Tian, 2019). In spite of the continuous efforts to reform of privatizing state-owned enterprises, China has not been able to remove the close connection between state-owned enterprises and the domestic government, or rather, the Communist Party of China. Actually, China remains firm on the party’s leadership in all domestic enterprises, especially direct leadership in state-owned enterprises. In fact, it is the reflection on one of the most fundamental principles of Chinese political leaders that China is and will always be under the leadership of the Communist Party of China. At the same time, any proposals from western countries that may generate even slight changes to that principle would be viewed as ill-intentioned attempts to damage the stability of the regime and question the legitimacy of its government. In addition to that, it is worth pointing out that under the current circumstance of the increasingly worsening Sino-US relationship, China is much more likely to keep resistance to deduce its government control over state-owned enterprises, and instead prioritize safety over reform (Guluzade, 2019).

**Reevaluation of Status of Developing Country**

In 2019, the United States delivered a communication named “An Undifferentiated WTO: Self-Declared Development Status Risks Institutional Irrelevance” (WTO, 2019) to the United Nations General Council, commanding that the status of developing countries of some rising powers like China should be reevaluated, and those economies should no longer be treated in a preferential way, considering their increasingly improved economic conditions. In that proposition, the United States is recognizing the great economic development that has been happening in China, and clearly expects China to bear the responsibility that is more corresponding to its identity of strong power, instead of limiting its duties within the weaker status of developing countries. The implication is that the United States is sensing the rise of China and the reducing gap between China and itself, and it is frustrated by China’s constant sticking to its identity as a developing country with limited responsibility, which seems to the United States as an escape and excuse, and thus further strengthens its strategic distrust against China.

In response to that, the permanent representative of China to the United Nations made another clarification to the council (MOFCOM, 2019), claiming that despite the fact that in recent years developing countries have achieved great accomplishments in certain areas like total economic growth rate, there’s still a huge gap between developing countries and developed countries, especially in terms of GDP per capital, bargaining power, eliminating poverty, and overall governing ability. That claim is in line with the Chinese claim on its basic situation: China would stay in the primary phase of socialism and remain the biggest developing country in the world for a fairly long time (Xinhuanet, 2017). Consequently, regarding western countries’ constant urging for reevaluation of China’s identity of developing countries, Chinese authorities hold an attitude of firm opposition, and take the accusation of the United States as a way of containment of China’s development.

At the same time, nine of other developing members (India, South Africa, Bolivia, Kenya, etc.) have shown their support for China’s stance by jointly issuing the claim named “The Continued Relevance of Special & Differentiated Treatment in Favor of Developing Members to Promote Development and Ensure Inclusiveness” (Tralac Trade Law Center, 2019).

**Contraction of Subsidization**

Just like the problem of state-owned enterprises, China’s subsidies to certain industries such as agriculture and high-tech have often come to the United States’ eyes as a sign of clear trade protectionism and a violation in
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the rule of transparency and non-discrimination. In that context, since 2017, the United States has issued joint declarations regarding the reform of subsidization together with European Union and Japan for six times. According to the declarations, a huge amount of subsidies has fairly negative consequences: Not only has the subsidy in specific areas like agricultural products and steel caused the domestic supply to be way higher than domestic demand, thus leading to excessively high exports (Liu, Gong, & Li, 2020), but also it has an overall negative impact on the fairness and order of the global market.

In addition, the issue of state-owned enterprises is intertwined with the issue of subsidization, thus adding more complication to the negotiation. To be more specific, the subsidization by state-owned enterprises is quite controversial. According to the first article of The Agreement on Subsidies and Countervailing Measures (WTO, 1995), the subsidy is offered by the government or public body, while the latter is not with an exact definition. That is also one of the reasons that the United States insists on categorizing Chinese state-owned enterprises as a public body, because in that case, it will be logical for them to accuse subsidization by those enterprises of violating the agreement. And considering the special economic model of China, and the fact that the majority of major financial institutions like banks are state-owned, that accusation (once proven valid) would constitute a serious challenge to China’s global reputation.

Therefore, in that context, China has claimed a prompt attitude in supporting the reform of subsidization. For instance, in 2022, the Chinese Ministry of Commerce made a speech, addressing that China is in firm support of performing necessary reform in subsidization (Xinhuanet, 2022b). Actually, subsidization is, among all topics, one of the issues with which China holds a relatively moderate attitude, mainly because (1) the big topic constitutes some subtopics that do not reach the baseline of China, such as agricultural and industrial subsidies, in which China is willing to make a sacrifice in to demonstrate its williness in support of WTO reform; (2) the present regulations do not completely catch up with the current situation, and the adjustment is in line with the future development direction, which can actually be beneficial to China itself.

Reconstruction of Dispute Mechanism

After the United States managed to bring the appellate body of WTO to a halt by refusing to appoint new judges, there have been increasing proponents for reform in dispute mechanism, for the behavior of the United States has exposed the weakness of such system that it can be easily manipulated by the will of major countries and lack binding power in return, which is also the main concern for WTO as well. Some may argue that it was a dramatic action initiated by Donald Trump, who has been well-known for his extremeness and ridiculousness, thus that the temporary crisis of the appellate body should not be viewed as a constant problem. Nonetheless, it is not guaranteed that there will not be another Donald Trump, and with the worsening atmosphere in the overall global environment, the reform of the dispute mechanism is imperative under such a circumstance.

The request from the United States to reform the dispute mechanism has been existing for a fairly long time, and paralyzing the appellate body is just one of the actions demonstrating their discontent in an outrageous way. Actually, the United States is one of the co-founders of the initial dispute mechanism and so far the biggest beneficiary. And it has proposed reforms in such mechanisms for many times in history (Zhang, 2019). However, in the recent decade, the United States is getting much frustrated for losing some important cases (for example, the arbitrator ruled its countervailing duty measure on certain products from China as a violation of WTO rules), thus questioning the impartiality and objectiveness of the mechanism, which can be reflected from its previous speeches. For example, the trade representative at that time, Robert Lighthizer expressed sharp criticism of the
current dispute mechanism, and partially attributed its failure to losing its essential focus on negotiation and paying more attention to litigation (USTR, 2017).

At the same time, as always, China has expressed its persistence in support of multilateralism, and resolution to improve the dispute mechanism, which is considered by China as the core of effective communication among members. Unfortunately, compared with other major members and China’s own performance in other reform areas, under this specific topic, it is not in a dominant position. It is worth pointing out that assumption is not negating China’s contribution to reconstructing the new order of dispute mechanism, for it has also made amazing efforts in proposing constructive counteracting measures for the reform, by itself and together with other members such as European Union, Canada, and India, etc.

Nonetheless, it is a fact that regarding the reform of the dispute mechanism, it is the European Union that is playing a relatively leading role in pragmatic attempts of constructing a new dispute mechanism, by succeeding in building up a new temporary organization excluding the United States and solving the appellate body crisis for a moment.

**Conclusion**

To respond to the Unites States’ claim, it would not be fair to say that China pays less attention to global development and much more attention to its own business since China has proposed the concept of “a community of shared destiny for humankind” and has achieved splendid achievement in promoting economic development in other developing countries. However, the strategic distrust comes from the conflict that China has done what it thought enough, and the United States asking China to do more is frustrating and alerting to China, for that gesture is deemed as an attempt of intervening in Chinese internal affairs and containment of Chinese domestic development. On the other side, the United States has deemed that resistance as lack of sincerity and willingness to bear more responsibilities.

It has been 10 years since the term “strategic distrust” was first officially proposed. To this day, the concept is clearly still of great strategic significance. The bilateral relationship is reflected and affects every change in global affairs, including the future development of WTO. Looking back at the history of WTO, the strategic distrust between the two major powers is contributed by volatility in negotiation, ambiguity in terms, violation in rules, and divergence in responsibility implementation. Furthermore, the sentiment has greatly influenced each country’s stances and attitudes towards WTO reform, especially on major issues such as marketization of state-owned enterprises, reevaluation of status of developing countries, contraction of subsidization, and reconstruction of dispute mechanism.

Overall, the WTO, the United States, China, and every member of the current international community are facing the same ultimate question: Is the world able to draw basic lines so as to incorporate distinctive forms of different ideologies and allow them to coexist in peace? It is undoubted that both China and the United States have great familiarity with each other’s political and social systems, and both ideologies have achieved astonishing achievements. However, layers and layers of historical unpleasure and malicious misconception have nullified numerous efforts by political leaders, scholars, and ordinary people, and made the strategic distrust hard to be eliminated. It requires both countries to be of great breadth of mind, let go of unrealistic dreams, and strive together to create mutual benefits significant and sustainable enough for the two distinct ideologies to finally incorporate each other in a respectful way. In the long run, that is the only feasible way to reform the WTO and the entire international community.
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