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TRADE BACKLASH AND
THE WORLD TRADE ORGANIZATION

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MS. SOLIS: Good afternoon, everyone. My name is Mireya Solis. I’m the Knight chair in Japan studies here at Brookings. It’s a pleasure to welcome you to this panel on trade backlash and the WTO.

We will address this afternoon a very important and timely topic, the post-war economic order established by the Bretton Woods institutions is undergoing stress. Obviously, over the course of 70 years, challenges have accumulated. The multilateral trading system has had to adjust to the larger weight of emerging economies, and more recently, it is confronted with skepticism on the merits of globalization now in many quarters of the industrialized world.

The challenges are certainly steep. The world economy has experienced a slowdown of international trade growth, and one of the contributing factors is the lack of liberalizing initiatives.

The negotiation logjam in the WTO is well known, especially in light of the failure of the Doha Round, although certainly that’s not the entire picture, because we have the trade facilitation agreement and ongoing negotiations, but the inescapable fact is it has not been possible to successfully conclude a multilateral round of trade negotiations for quite a long time.

It is not only the negotiating arm of the WTO that is in the hot seat. While the WTO’s dispute settlement mechanism is a major improvement, frustrations have also grown in this area, certainly in this country, where there have been complaints of overreach and where there is a new administration that seems more willing to rely on unilateral measures.

So, the challenges are steep. I cannot think of a more important conversation to be having today than the future of the multilateral trading system, and when we have to address these fundamental issues, I think we really need to rely on the depths of expertise.

I feel very lucky that I have a terrific panel for all of us here today. Let me introduce our speakers in the order in which they will come to the podium to make a brief presentation.

Uri Dadush is a senior fellow at the OCP Policy Center, and a nonresident scholar at Bruegel. He also teaches courses at the University of Maryland, and his most recent book is titled
“WTO Accessions and Trade Multilateralism.”

Today, Uri will discuss the prospects for institutional reforms within the WTO, and the implications of the Trump administration’s trade policy on multilateralism.

Scott Kennedy is deputy director, Freeman Chair in China Studies, and director, Project on Chinese Business and Political Economy at CSIS. His most recent book, a co-authored book, is titled “Perfecting China Inc.: China’s 13th Five-Year Plan.”

Scott will talk today about the impact of China’s rise as a major export powerhouse in the multilateral trade regime, and the prospects of the ongoing dispute regarding China’s market economy status in the WTO.

Christina Davis is professor of politics and international affairs at Princeton University in the Department of Politics and the Woodward Wilson School of Public and International Affairs. Her most recent book is titled “Why Adjudicate? Enforcing Trade Rules in the WTO.”

Christina will discuss the strengths but also the sources of stress in the WTO’s dispute settlement mechanism.

Yorizumi Watanabe has a long career as a Japanese diplomat and has been teaching at Keio University for a decade. He has been engaged in the most important Japanese trading initiatives over the past years, and he has also been posted to Japan’s diplomatic missions in Brussels and Geneva.

Given that Japan has long been a beneficiary of the multilateral trading regime and that today there are great expectations that Japan could play a larger role as an advocate, as a champion of free trade, he will discuss Japan’s policies towards a multilateral trading regime.

Here it is. We have a very rich discussion, and I’m sure time is going to fly. Thank you. Uri?

MR. DADUSH: Good morning. Good afternoon. Thank you very much, delighted to be back at Brookings. Mireya, thank you very much for inviting me.

The best way I can describe my feelings about trade these days is unstable like anxiety disorder. Following on November 8, 2016, my anxiety level rose markedly as TPP was buried shortly thereafter, it touched maximum when a dangerous idea called “the border adjustment
tax” was gaining traction, and after seemed headed the way of TPP.

Then I became a little calmer, less prone to panic attacks, as various checks and balances on presidential action kicked in. Executive orders now command the preparation of studies of why trade agreements are not working instead of commanding immediate departure from them. That gives me a little hope.

Sunday evening, I felt really good, even my country, which in a sense invented mercantilism, a doctrine that has lost none of its appeal since the 16th century, elected a president who embraces globalization, despite Brexit and the rise of the nationalist right, the European Union, the world’s largest trading block is not about to break up, at least not yet.

I’m not alone in feeling better. Not only are the stock markets booming but the VIX Index, which evaluates anxiety quite precisely in the financial market by measuring the cost of hedging, has reached the lowest level since 1993, the year before the Uruguay Round was concluded and the WTO was launched.

The IMF’s forecast for the world economy, and I see John Lipsky here, over 2017 and 2018 calls for three percent growth at market exchange rates, which is essentially the 25-year pre-crisis average. After many years of slow growth, due mainly in my view to cyclical factors, world trade growth is projected at four percent a year, much slower than the pre-crisis average but well above GDP growth.

So, should we still worry? The answer is yes. First, as we have seen in the last 24 hours, Washington is full of surprises these days. (Laughter) Second, because the administration is proposing tax cuts and increase for defense spending, if cleared by Congress, this will amount to a substantial fiscal stimulus. This will occur against a background of full employment, rising interest rates, and a strong dollar. That’s a textbook recipe for an increase in the trade deficit. John, am I right? And in 2018 and beyond.

These big bilateral trade deficits with China, Germany, Japan, and Mexico that the administration does not like, are more likely to become quite a bit larger in coming years instead of smaller. Something will have to give, and that something could be open markets.

Third, and in a way the most important, although the less urgent, is the rising
inequality is very little is being done to address the root cause of the new protectionism, which is the rise of inequality and the falling behind of less skilled workers. In fact, U.S. fiscal policies, health care policies, education policies, and regulatory policies, are currently oriented towards increasing not reducing inequality.

Given what’s happening on the technological front, I’m willing to bet that in the future, the resistance to trade, even though trade may not be the main culprit, will increase in the medium term.

So, we are not out of the woods. The risk of a major trade backlash is still very much with us, and the world trading system has to be looked at against this rather dark background.

So, as Mireya has already said, the issues confronting the WTO have been rightly discussed, they are well known, and with the Doha negotiations launched over 15 years ago -- I was in Doha full of hope 15 years ago, younger and full of hope -- it has become evident that the mechanism that generated trade liberalization in eight previous successful rounds has broken down.

The WTO settles trade disputes, but is allegedly losing its relevance because it is not able to adapt to the time.

While the Bush and Obama administration at least continued to pay lip service and even tried to revive in a couple of contexts the organization, the Trump administration is challenging it frontally.

Commerce Secretary Wilbur Ross, USTR nominee, Robert Lighthizer, have complained, both complained, about the WTO’s dispute settlement, also mentioned by Mireya, as being biased against the United States and inappropriately creating rules which could not be negotiated by setting judicial precedent.

Mr. Lighthizer has argued that the U.S. is not legally bound by WTO rulings. Mr. Ross has argued that while the United States has bound its status at a very low level, many of its trading partners have not, and this puts the United States at a big disadvantage, and helps explain the big bilateral trade deficits.

Economists argue that bilateral trade deficits don’t mean much in an integrated world and the aggregate reduced trade deficit is due to a deficiency of national savings, and/or the
desire of investors, foreign investors, to invest in the United States don’t get much of a hearing.

Mr. Ross has also argued that the value-added tax adopted by nearly all other WTO members discriminates against U.S. exports and subsidizes the exports of other countries. This is factually incorrect, but the myth persists.

The president even threatened to withdraw from the WTO during the campaign. While such a move may be challenged in the courts, legal scholars believe that the president of the United States has the authority delegated by Congress to withdraw from any trade agreement, including the WTO, with six months’ notice.

Now, how likely is the United States to withdraw from the WTO? Never say never. It’s possible, but I think it’s very unlikely. The blow to the United States’ prestige and the indirect effect on national security would be immense. Most concrete, of course, is the enormous stake that the United States has through its export industries and foreign investors, all of whom rely directly or indirectly on the openness and predictability of trade under WTO rules, the ability of special interests, agriculture, automobiles, et cetera, to influence the public and Congress is considerable.

States that rely most heavily on exports like Texas hold key positions in committees that deal with trade. Presumably, if the United States withdraws from the WTO, it is to raise its own tariffs. This would also be resisted by retailers and producers that rely on imports, as we have already seen in spades in opposition to the border adjustment tax.

So, the U.S. is unlikely to withdraw, but the prospect of four or eight years of immobility in the WTO is now almost assured. So, what should they do? How should the big countries react?

To start with, the WTO needs to recognize that Doha is dead and that the all-encompassing single undertaking, 160 country approach to negotiations does not work. Instead, modalities need to evolve around specific issues that a critical mass of countries care deeply about. These should go forward whether or not all WTO members want to participate. In some instances, the rules should allow non-participants to derive the benefit of the agreement without taking on the obligations. In other cases, this free riding should be prevented.

I believe that the Bali trade facilitation agreement which has been billed as a
multilateral deal, has so many flexibilities in it that it really resembles very closely a plurilateral.

The organization also needs a new narrative, and that narrative is possible as it is grounded in facts. It’s true that 23 years have passed since the WTO was created, and there’s no big multilateral deal. These 23 years have seen great advances in free trade through regional bilateral deals and unilateral liberalization, all of which I underscore depended directly or indirectly on WTO rules and disciplines.

Two examples. The starting point of any bilateral deal, and second, if Britain leaves without a trade deal, it will not wander for 40 years in the desert, it will revert to WTO disciplines.

The WTO itself has made enormous strides in its capacity to regulate world trade. The accession to the institution of China and 35 other members expanded its coverage from about 80 percent of world trade to 98 percent of world trade.

Even more important, the accession process, long and laborious as it is, anchored China’s market reforms, and that of all other Article 22 countries. Effectively applied tariffs in China and the United States, EU and Japan, and in many developing countries have come down very significantly since 1994, even in the absence of a global deal.

Five hundred or more disputes have been settled in the WTO, maintaining orderly economic relations, despite the financial crisis. Protectionist measures have so far affected only about five percent of world trade, and even in most instances, the effect on specific sectors with some exceptions such as steel has been miniscule.

So, in closing, there are four policy implications from this short review. Number one, the WTO must change its negotiating modalities. Number two, the European Union, China, and Japan must work together to ensure the WTO’s health and continuity while encouraging the United States to remain in the fold. Number three, American firms that depend on foreign trade and investment must make their voices heard, they must realize that they are in much greater danger outside the WTO than inside the WTO. Last but not least, number four, all countries, beginning with the United States, need to reexamine the internal dynamics that caused the new protectionism. They must address increasing equality and market liberalization through social policy instead of choking trade or technology, which are the real strength of our prosperity.
Thank you. (Applause)

MR. KENNEDY: Good afternoon. It’s a delight to be here to talk about the WTO and China, even though it’s probably not going to be a very happy talk, hopefully some of us -- I think Uri might be the most positive in sort of reminding us of all the positive things the WTO has done, but there is a great deal of frustration.

Before I talk about China specifically, I want to say just a few things to emphasize some of the points that he touched upon where there are concerns. I just want to highlight three very briefly.

The first is the WTO is a liberalization organization. Its mission is to liberalize trade, but it allows for exceptions, so there are lots of loopholes. As China joined the WTO, it has learned those loopholes. It learned not only the good about liberalizing, it learned the good about protection.

In addition, some play better at these games than others, and there are patterns. The wealthier you are, the more lawyers you have, the better you are at using the WTO system to your advantage.

In addition to that challenge that the WTO has, it’s clear that because it is a liberalization organization, that means it’s not a development organization. Even though we think that development flows out of trade and generally supports it, they aren’t synonyms, they don’t always do so, and trade can create inequality.

In addition, the WTO is not a jobs organization. Even though trade may in general generate more jobs, it doesn’t always. Sometimes it leads to some members getting more jobs than others. So, the WTO has no mandate to deal with these challenges of development and jobs, and that creates stress and tensions in the system.

Lastly, beyond the WTO, the global governance system has many, many loopholes. The WTO is about as comprehensive as an organization can be, but it is the exception to the rule, in finance, investment, in technology. The institutions are far weaker and often times don’t exist. That creates more loopholes for countries and members and companies to use, but it also means that when there is a problem, folks blame the WTO for what are investment issues or things that wouldn’t be under the WTO’s responsibility in any case.
So, all those things put a lot of pressure on the WTO, and then you bring China into the mix, and the challenges get that much harder.

Integrating China into the WTO -- it joined in December of 2001 -- was always going to be a challenge. First of all, just because China is so large. As a large country, the reduction of tariffs for it, removal of non-tariff, that was going to lead to a redistribution of wealth, of supply chains, and that was going to create new winners and losers who were going to feel a lot of angst simply because of this large new member.

In addition, given the fact that China came from a planned economy where state intervention is the norm not the exception, integrating China into a rules-based order where states are not supposed to intervene except with exception, is hard, hard for China to learn that because you have a large central government, you have many provincial governments, local governments, companies, lawyers, and others that have to learn those rules.

Then it’s also difficult for the incumbents because they have to learn what it’s like to interact with an entirely new type of player. In addition to China, you have India and all the others that Mireya referred to as well, who are playing a bigger role.

Now, this integrating China challenge, I think, has gotten harder over time, but I don’t think it was inevitable. Under Jiang Zemin and Zhu Rongji, the leaders who negotiated China’s entry, I think you have these challenges of size and newness to deal with, but they were really committed to China’s integration, and they wanted the pressure of WTO to force domestic liberalization on China.

Under Hu Jintao, their successor who took over just a year after China joined the WTO, he was just faced with all of these commitments that China had to absorb, and he wasn’t going to just get up and run away from them.

In addition, he was a relatively weak leader. He was pushed and pulled by a whole bunch of different forces amongst other leaders like Jiang Zemin and more conservative leaders, but state owned enterprises, by many different types of interests, so he was pushed and pulled for the entire 10 years he was in office.

For his first four years, which was when China ended its first five years in the WTO,
China was basically given a pass by all the members in terms of whether or not it complied with its commitments.

But then in 2006, at the end of 2006, after five years, the cases started to be filed against China, against Hu Jintao, and he did a very good job of encouraging the rest of the system to lawyer up, to deal with these WTO cases, and China gradually saw these cases being filed against it as sort of normal. They didn’t file a demarche and protest down Massachusetts Avenue because a case was brought. They learned how to bring cases themselves, and China has brought a fair number of cases against the U.S. and others.

They basically learned how to play within the system, and they were relatively constructive in the Doha Round, although there is a debate about what happened in the summer of 2008, how much China gets the blame versus others. I’m going to put the blame mostly on India, but nevertheless, you have lots of competing forces.

I think China would have signed a deal if they could have gotten everyone else to make a deal in 2008. Nevertheless, more complicated because of the many different types of players.

I do think under Xi Jinping, who has been China’s leader since late 2012, that China’s approach toward its domestic economy and toward the WTO and the global system has changed remarkably. This is not inevitable. I think it is because of him and the people he has appointed and their strategy.

He does not believe in markets. To put it bluntly, he’s a control freak, domestically, with regard to the economy, civil society, the rest of the political system, and for China’s role in the international system.

He has utilized the tools of the WTO to protect China and also to provide more leadership in the WTO, but also to push norms that help protect China Inc.’s interests, to make the WTO safe for China that uses industrial policy.

If you look at the cases that China has faced in the DSU as a respondent at the WTO, it has faced -- at the end of 2016, and maybe there are a couple new ones since, they were a respondent in 37 cases altogether.
That is about seven percent of the total of the 514 cases that had been filed, and China's contribution to world trade is about eight percent, over the lifetime of its being in the WTO. Relatively proportional.

On the other hand, if you look at over time, since China was given a pass for the first few years of its membership, the proportion of cases over time has grown, so in the second five years of its membership, even though China counted for eight percent of trade, 24 percent of WTO cases were filed against China, and in the last five years, China counted for 11 percent of trade, 20 percent of cases were against China.

Who brings these cases against China? Well, the EU brought 22 percent of the cases and the U.S., over 50 percent of the cases. That’s very different. Even though the United States has been a respondent far more times than China, the dispersion of the folks that bring cases against the United States is very wide.

That is because no one is afraid to bring a case against the United States. You don’t think if you bring a case against the U.S. that they are going to retaliate somewhere else, but most folks think that’s what China is going to do, so it’s left to the EU and the United States to bring cases against China.

Most of the cases involving China are about its industry policy, all the different aspects from standards to trade remedies to subsidies, cases which get at the heart of what is making China competitive.

By contrast, cases against the U.S. are primarily against our trade remedies regime to cushion the blow for steel, declining sectors, and such.

The results of the cases involving China are also interesting. If you count those 37 cases, that is double counting because if several countries bring one case against China, for example, in rare earths, they count that as four cases if four countries signed on, but if we just go by the product number of cases, there were 24 cases involving China, 18 of those are finished, 16 of those cases, by my count.

The WTO doesn’t issue a ruling that says this side won or that side won, you have to read the case, very difficult legalese to do, which gets the U.S. Trade Representative and Ministry
of Commerce arguing over who won, but by my independent reading, 16 of the 18 cases went fully against China.

In most of those cases, China has come into legal compliance according to the letter of the law, but most of those efforts to come into compliance has not had any commercial consequences that have been impactful on either China or the countries bringing the cases to begin with.

Two examples where the decisions were entirely irrelevant, the rare earths case in 2011, where China lost. It had asserted the need to protect its environment to control exports of rare earths. The case was launched in part because China suddenly just banned rare earth exports to Japan.

It took several years for that case to be resolved. By that time, the rare earths industry had already totally moved along.

The wind power sector, China lost a case because of its subsidies for the wind power industry, but by the time that case had been done, China had gone from its domestic companies having 15 percent of market share in China to having 85 percent of market share in China.

There are other cases where they make a change in the law but it really has no effect, even though there is still a chance that it could. The best example of that is the electronic payments case where China has protected China’s UnionPay, CUP, Yinlian, its domestic monopoly, and not let VISA, MasterCard, AMEX, or anyone else compete in the domestic market against it, even though it has been recognized as a monopoly, and the Chinese changed the rules to allow foreign companies to register, the process makes so you really can’t register, so you really can’t compete.

You can go to any ATM in D.C. and see a China UnionPay logo, and they can do business all around the globe, but there’s not the same level of reciprocity in China despite the decision.

A lot of the frustration is that even if you use the WTO dispute system, you don’t get commercially significant changes in Chinese economic policy that one should. I still think that may
be going a little bit too far because for me, the WTO should be a speed bump that doesn’t keep everyone at 55 or 65 -- showing my age -- but keeping you from driving 120, but China is still driving too fast even with WTO disciplines.

That brings us to the most recent case, China’s market economy status. China believes that as of December 12 last year, every other WTO member should treat it as a market economy. I could read you the legalese of Article 15 of China’s accession protocol where it looked like it states that, but nevertheless, the United States and the EU haven’t agreed. About 81 countries have already recognized China’s market economy status, which is relevant only for trade remedies cases and how you calculate the dumping margin, but the EU and the U.S. have not done so yet.

On December 12, China asked for consultations with both the EU and the U.S., and then in early March asked the WTO to create a body to adjudicate the case against the EU. It didn’t ask for it to do so against the U.S. I think that is because the EU’s law in this regard is weaker, it’s easier to challenge. I could see the EU losing that case.

The U.S. case is more defensible, and I think it gets back to just sort of a philosophical principle, not whether Article 15(d) says what it says, but whether or not China is a market economy.

If you don’t believe China is a market economy, use whatever definition you like, then I think the U.S. has a lot of leeway. We will see how the EU case plays out. At some point, China could decide to move on the U.S. I think that will depend partly on negotiations that are occurring bilaterally.

Regardless of what happens at the WTO, this case of market economy status and China’s overall relationship with the global trading system isn’t going to be decided by lawyers, in any panel, or in an appellate body.

It’s going to be decided by politicians in the different capitals, because these issues are too big to leave to lawyers. I love lawyers, but they shouldn’t have all the power in the world. There are others that should. Sometimes if you look at our politicians, you realize they shouldn’t have all the power either. (Laughter)
Thank you very much, and I look forward to the discussion. (Applause)

MS. DAVIS: Thank you very much for the invitation. It's a pleasure to have a chance to talk with you today. I'll be discussing how I see the WTO not only as a liberalization organization, as Scott has portrayed it, but also as a conflict management organization, helping countries to resolve their trade disputes in ways that can avoid trade wars, and that we really need to appreciate this important aspect of the WTO.

I have three questions. How well does the WTO solve the problems that are brought before it? Even more ambitious, how well does it prevent future disputes? Finally, how is it going to deal with change and adaptation?

I'll be looking at effectiveness on two dimensions, thinking about policy change, can you change the trade barrier that is impinging on the U.S. for opportunities, and deterrents, which is this idea that a legal system if it is credible and working will lead people to adapt behavior and not violate the law.

Overall, I'll be showing that the WTO has a fairly good record at solving the cases that are being brought before it, and we do see a decline in complaints over time. I'll try to convince you the declining number of complaints is a sign of strength and not of weakness, but that is challenging to prove, so I imagine we will start a debate.

I'd like to talk about the challenges, how can you have a legal system enforcing rules that are unable to keep up with the times and the tensions that gives rise to, especially when the backlash is from the largest player in the system.

Starting off, if we think about why you would even bother using an international trade court, after all, there are no trade police, and the United States or other countries can retaliate without a legal ruling, so why do they need to go to court to have a ruling and authorization.

The process is much more about information and less about -- yes, the legal interpretations do matter, and authorization of retaliation is an important stick at the end of the process, but I argue that a lot of what helps the WTO to be effective is that it is a screening process for countries to communicate with each other about their trade problems.

Frankly, the United State or Japan, Europe, or China, have a ton of problems where
somebody thinks their exports are being discriminated against, and if every time there is a problem, there is a Tweet, there is a barrier, there is a retaliation, we will have a proliferation of trade wars.

So, it is very important for countries to sort through their trade problems, and this is where the act of filing a formal complaint based on law comes in, but also sorting through where is there a combination of economic and political interests that makes it worth pursuing that legal case.

Even the United States with all of its problems only filed a few cases a year, so the act of which cases do you file helps to convey where our trade priorities are. That is especially so for other countries where they can really try to give a priority to the one or two issues that are critical for their export industries, whether that is a major trade stake or a politically important industry.

This helps countries to bargain better, because now they know, it's clear that threshold is important, there's a legal claim that is defensible, and there is a political/economic interest at stake.

Of course, it also helps that you can declare you have sued your trade partner, you're taking action against these violations. President Obama was not the first nor will he be the last to stand in front of a trade representative saying we have filed cases against China, we are acting, and we are being tough. That public nature of the dispute system is also important. It becomes the lightning rod for a lot of these difficult issues.

As I said, it doesn't actually mobilize a new retaliatory power because you could retaliate without the law, but winning a legal ruling in a multilateral body certainly mobilizes new pressures because you now have an international stake in compliance that is brought by reputation, some sense that you shouldn't violate international rules right and left.

Generally, these are the reasons why we should expect that the WTO rules are going to help countries to solve their disputes. It's especially important to think about what's the right comparison. So often, we just think about the observed WTO and it's not working well enough, but you have to think about what's the alternative?

Would we have gotten a better result by doing a bilateral negotiation? I think often that alternative is getting lost, so I would like us to look at that carefully.

I'm going to give you a very short synopsis of my book, “Why Adjudicate?” If you
are interested, read the full thing. I'll give you the short highlights.

What I do is try to tackle this question of whether the WTO is getting better outcomes by looking at the effectiveness of the system for the United States. President Trump has argued that we need to go and look through all of our trade partners and see where the trade agreements are helping the United States or not, and if violations are working or not.

Actually, this has been done for a long time. The Congress mandated the National Trade Estimate Reports back in 1974, and every year, the USTR faithfully publishes a very long and thorough investigation of what trade partners do that is harming U.S. exports. It highlights where those are expected to be a violation, where they are just a problem, and what is being done about them.

It’s nice, there is a laundry list of problems. This is a way to try to think of that comparison, how do our WTO complaints stack up against all these other problems that didn’t quite make it to the WTO forum.

In my book project, I went through and coded for the first 10 years of the WTO, if you look at our top trade partners, 328 major trade barriers, a small handful are being brought to the WTO. Only 41 of these industry specific trade barriers were brought to the WTO, 12 percent of the total sample that I’m looking at.

This allowed me to try to compare how did those WTO cases do relative to the others that were negotiated outside. Overall, they did pretty well, 76 percent of them have the U.S. Trade Representative’s Office reporting progress toward removal of the barrier, complete removal in some cases. That is compared to 50 percent for those that were just being negotiated at the bilateral level.

Now, it’s important to think about this. Seventy-six percent means not all are solved, so there are WTO cases. You go through all the legal briefs, you mobilize everything, and nothing happens, and that is where the press focuses its attention. Getting progress on most of the cases is pretty good. The attention that if you compare this to the alternative, you might have had a worse outcome.

Of course, we are also worried about how long did it take to get that outcome. After
all, the Boeing dispute took from 2004 to 2011 to get a ruling, and we are now in compliance ruling. You could say this is just too long. Again, we might be forgetting, there was another 20 years before that, bilateral negotiations, where Europe continued to ramp up the level of subsidies.

It’s not necessarily obvious that the alternative to the WTO is going to be stopping all of those subsidies because the bilateral negotiations did nothing to slow them down, let alone stop them.

At face value, it appears like there is a pretty good record. I did conduct a more rigorous statistical analysis where I tried to control for is it a high trade value product, is it one with a lot of political stakes, and even with the better statistical analysis, I can show if anything, harder cases go to the WTO. After all, you don’t bother going to court for something that would have been easy to solve.

When you take into account all the difficulties of these cases, the fact that most of them is being solved is really quite remarkable. The overall increase in the likelihood of getting progress is a 28 percentage point increase if you use the multilateral as opposed to the bilateral.

You think if it’s working so well in the first 10 years, why are there less cases? My work is disappearing. It used to be there were 40 cases a year, now there’s 20 cases a year. Does it mean the system is not working?

Well, I’m going to try to convince you, and I know my time is running out, so I’ll be quick, that actually there may be a silver lining to declining cases, that there are some deterrents in the system, not complete, but some.

What do deterrents look like in the legal system? It would mean by enforcing each case, a violation, you’re showing that we are monitoring everyone’s trade policies, and when there is a violation that is serious enough, we will take you to a public court, lead through the process, possibly to retaliation. That should lead to other countries reforming their policies or at least pulling them down quickly when the embassy has a discussion and not necessarily force everyone to go through the entire rigmarole of the court case every time it comes up.

Precedent effect is the hopes that you would clarify the law. Sometimes disputes are an honest misunderstanding. Trade agreements are not precise. Again, each case adds
jurisprudence, you understand better how it works. We could also see this cumulative building of understanding that would lead to less cases, because we know it works better.

The motivating example for me was actually I was walking around with some friends in the Japanese Ministry of Agriculture, and they were telling me about a study group on WTO dispute settlements. They were looking at the cotton case where Brazil filed against U.S. cotton subsidies.

I was like why does the Japanese Agriculture Ministry care about this case. They were revising their subsidies laws. There was some obscure provision in the WTO panel ruling about what counts as a subsidy, and if you mandate it’s for vegetables, that is trade distorting.

So, other countries are watching that jurisprudence, and they’re thinking about it as they revise their own laws. That is the ideal of rule clarification/deterrents. But it may not be very common.

The other good example of possibility of spillover is when the U.S. won a ruling against the Canadian policy on a feed in tariff for solar panels, there were marked effects on solar panels in India, because investors figured India has the same exact feed in tariff that has just been found in violation against Canada, so this is going to hurt India. Sure enough, you saw that spillover in the market reaction.

We see the WTO and its rulings about precedents say we need to be consistent because their members are trying to conform with the law. There is the sense that there is precedence, that countries do look at rulings and do act to change their laws.

If that’s true, it means that states actually want to comply, and they are following cases and trying to update their policies. We can hope that is true. It is ambitious for a system to work in this way, and perhaps it is a rare case, but it could be one explanation for some decline in the disputes.

I look at which agreements do we see having a decline in disputes. Frankly, I think bureaucrats are more likely to update their understanding of the law and just fix things. It’s the technical agreements where we will see this process happening more. The new agreements where yes, there was a lot of uncertainty. Less likely to happen for trade remedies where we all know it’s
pretty politically driven by an industry that’s harmed.

This is what I do see when I look at which agreements have the linear decline in cases citing those agreements. The general rules of GATT on non-discrimination, national treatment, generally is the following decline, that there has been less every year in the number of cases citing those types of violations.

We also see that the new agreements, they are less overall, but it is overall declining, and the standards agreements have had a general decline, while the remedies are all over the map. They respond to political pressures, macroeconomic conditions.

That is tentative evidence that where countries have more control, where there was more legal uncertainty, you see a decline in cases.

This is a picture of the overall pattern of all the cases that are being filed, looking at the GATT to the WTO. What is really interesting is under the GATT system, there was an increasing number of complaints being filed. This is the strains of a system, there are more and more violations, more and more cases, building up to 1995 with the WTO, and everyone now is excited we have a new legal system where you can’t veto the panel, and you see a surge of cases, some are backlog cases, some are trying out the new system.

Since then, there has been this decline. As I say, the question is is it because of discontent or effectiveness. I believe from my earlier research that generally countries are betting better outcomes from the WTO.

There are anecdotal evidence cases that they are looking at the rules, updating their understanding of the law, so I would say the decline of cases may be a sign of hope, but we may see a surge back to more cases going forward because we have this problem of the rules are not adapting, so now you are getting more and more problems with you have new trade issues and you’re trying to apply the old rules. This is likely to generate new problems. We might see a surge in a new type of case that is really going to push the margin of the system.

We already can see where you need rule clarification. The trade remedies that generate so many WTO disputes, can’t seem to get around that, need to revise the remedy rules rather than have it be litigated, litigated, litigated.
We have also seen environment and labor standards where ideally you would have had a new agreement that would clarify how do you regulate processes when the products will look the same.

The WTO has been trying to allow creative solutions leaving a lot of deference to countries on this point, so I’m not sure it is quite as broken as the NGO groups portray, but nonetheless, it’s been a source of tension.

A real challenge is the state-owned enterprise issue with what is the public body and how do you define subsidies, and this is going to be a real problem with the United States backlash against the treatment of China. Border tax, obviously, looming on the agenda.

All of these are areas where you would want rules to clarify rather than a third-party judgment deciding, but because the Doha Round has failed, we aren’t getting any rule clarification, and the only way forward to clarify the rules would be a new trade round that would fully revise the system, but that seems unlikely, certainly in these times, and not in a timely manner.

The second would be to amend the rules. There are processes with two-thirds of the governments, you can revise the rules. Yet, the very first one was just concluded this January when two-thirds of the members ratified the TRIPS amendment for access to medicines, but that was a 2003 agreement. It took this long to get the rules amended.

So, that’s not a big solution. What is happening is the third option, which is the courts being forced to try and fill these gaps, and that is what is leading to charges of judicial activism from the United States and concerns in other quarters about legitimacy of the trade rules.

I think this is the real picture of the WTO dispute settlement system going forward, and we see alternatives to the WTO dispute system in the regional agreements, TPP was trying to strengthen and innovate on how you design dispute settlements by going to a compensation option.

We have also see new unilateral options, go through one by one their trade partners’ trade balances. Perhaps that’s the new way to solve trade disputes.

I’m a little concerned about the bilateral turn for a couple of reasons. One is we see that most of our bilateral free trade agreements do not have strong dispute settlements. They might in design have dispute settlements, but countries don’t use it. There is also a reason why it’s difficult
to use bilateral agreements for hard enforcement.

Often, you have more geopolitics at the bilateral level because it becomes just the two countries. As strong as President Trump has been towards China in saying in his first trade policy agenda issued by USTR that there would be no geopolitical benefits from bilateral deals, the first issue was to not label it a currency manipulator and to bargain for North Korea cooperation from China in exchange for better trade terms.

When it’s bilateral, there is much more pressure to make those types of tradeoffs of geopolitics for trade, whereas in the multilateral setting, you may actually find it easier to focus on broader rules, broader gains across the system.

The plurilateral option is promising in that it’s easier to get there, but it leaves all the hard issues like agricultural subsidies or trade remedy rule revisions outside, and I’m a little worried that if you get all the industry solutions for information technology and the easy things solved in a plurilateral, you will never get those hard issues resolved, and the WTO dispute system will be left as the only enforcement game in town with rules that are not being updated.

I hate to end on a grim note, but in conclusion, the WTO has worked well. It might prevent conflict but the system will erode unless we give it a new source of energy. (Applause)

MR. WATANABE: Good afternoon, ladies and gentlemen, and many thanks certainly go to Mireya, thank you very much for having me here. It is a great honor and pleasure always for me to be here at this institution, and also my thanks go to the audience because you have been busy watching TV, the breaking news by CNN or ABC or whatever about the thing that happened yesterday. I was quite astounded, too, just upon arrival. So, I had a very short sleep, actually, 3:00 p.m. in Washington time is a very hard and challenging time for me.

I’d like to start with the kind of regression of the sanctioning of the GATT/WTO. The first thing is that GATT is an international treaty, and this is a book of international trade policies, provides legally binding international contracts for the members, and also by virtue of the single undertaking, provides very comprehensive rules, not only rules but also letters in spirit governing international trade.

One of the major functions is GATT/WTO has been sanctioning for trade
negotiations for quite some time. We had eight successful rounds under GATT, and one painful experience in the WTO/Doha development agenda. Third, GATT/WTO has a function of international organization, which is also quite important, particularly in the sense that this organization functions very well with fairly small scale of the Secretariat, total number is something like 650, including all the general service people.

There are slightly more than 200 professionals working on the trade issues, trade policy issues, in comparison with other Bretton Woods institutions, this organization is fairly small, but efficient Secretariat.

Also, the good record of litigation mechanism that Christina has already explained, and her talk was extremely persuasive that I want to buy the book and maybe introduce the book to my Japanese students, and also to the officials as well, perhaps.

More than 500 cases with more frequent use by developing countries, that is also a very important element.

Decision making of that organization by consensus, but in the good old days of the GATT, we had more kind of flexible consensus. The Brazilians and Indians were all against inclusion of the new issue, such as services, intellectual property, and investment measures, but they said they were still opposed to the inclusion of new issues but they were ready to join the consensus. This is what they said. That kind of flexibility in consensus has been missing in the WTO, and that was the major cause of the failure of having meaningful results.

Here, I would like to just introduce a brief history of Japan’s membership in GATT and WTO. Japan joined in 1955. At that time, the only supporter of Japan’s membership to GATT was the United States. All other western countries, Western European countries, in particular, like Great Britain and France and others, they all applied this Article 35, which was actually the veto to the newcomer of the general agreement.

So, Japan did not have this most favored nation treatment, neither national treatment provided by those countries. Japan has only United States as a kind of open market for its exports in the 1950s up to the middle 1960s.

In order to cope with that kind of difficulties, the voluntary export restraints had been
introduced to mitigate trade frictions with the U.S. and the EU, and the first instance of Japanese exercise on voluntary export restraints was on textiles in 1955. The last case for the VER was on auto’s, passenger vehicles, and that ended up by 1995.

Also, there was a behind the scenes sort of fight where the Uruguay Round was launched in September of 1986, the discussion about balance of benefits. You remember, right? That was kind of behind the scenes. The major argument was whether they should include the new area issues, such as services and intellectual properties, but that was also an issue, and that could give us some idea how we look at China’s accession since 2001 in WTO.

It’s interesting to note that Japan’s first and only one recourse to the GATT dispute settlement was in 1988. That was the imposition of antidumping duties to what they called “screwdriver investment” on electric scale, and that is only one case.

After 33 years of Japanese accession, there was only one case that Japan brought the other member of the GATT to the dispute settlement in the GATT.

Since 1995, after the establishment of the WTO, Japan was an original member. The mindset of the Japanese government towards the WTO hasn’t quite changed. Beforehand, it was more passive, but after WTO, it’s a more positive kind of thing.

Finally, in the year 2001 and beyond, the economic partnership agreement, which is Japanese version of free trade agreement, EPA, as a complimentary approach to trade liberalization together with WTO avenue for trade liberalization.

So, let me touch upon Japan’s strategy, particularly in the area of Asia Pacific and beyond. That was considered to be kind of de facto business driven integration, quite phenomenal since the Plaza Accord of September 1985, in order to mitigate the negative ramifications of much appreciated Japanese Yen, so many Japanese companies made foreign direct investment, FDI, to the neighboring ASEAN countries and also some other East Asian countries, such as Taiwan, China, Korea, and so forth, and they developed the supply chain and production network.

So, in order to cover, not only cover this supply chain but also to consolidate the merits of having a supply chain and production networks in the region, FTAs and EPAs that Japan introduced little by little. Those bilateral FTAs and EPAs now developed to wider regional FTAs and
EPAs, such as RCEP, regional comprehensive economic partnership, comprising 16 countries. Japan, China, and Korea tried other FTAs, those have been negotiated since 2013. Beyond regional FTAs and EPAs, Japan has been moving, and Japan joined the TPP negotiations in July 2013.

TPP is an interregional FTA, and the other interregional FTA is Japan/EU's EPA. We have already Japan/China EPA to reach East Asia and Europe, and Japan/EU EPA might be successfully concluded towards the end of July. I hope that would be the case.

This is the list of bilateral FTAs and EPAs that Japan has so far concluded. There are 15 of them, and that covers roughly 23 percent of Japan's external trade.

This is the substance of Japan's EPA, it covers not only trading goods, the very traditional part of FTA, also trade in services, investment, government procurement, and also some area called "improvement of business environment," and so forth. These are quite comprehensive going beyond traditional FTAs.

This slide is to show you or give you some idea that Japan has so far concluded 15 bilateral EPAs, maybe now moving on to two directions. One is East Asia by using this RCEP framework, regional comprehensive economic partnership, which is essentially Japan, China, Korea. In addition, we have Australia, New Zealand, and India.

This is more of an integrational sort of approach while going to the Pacific Rim, we have TPP and also Japan/Canada bilateral EPA and negotiations.

Those RCEPs together with TPP and existing bilateral EPAs will bring us all to FTAAP, which is free trade area of Asia Pacific.

Japan could play a very important kind of pivotal role between TPP and RCEP. In this way, if you look at this picture, we have three major regions, European Union, NAFTA, for North America, and for the southern part of the American continent, and we have East Asia.

Those are three major regions that could be considered as growth poles. Between those growth poles or major regions, we have interregional cooperation frameworks, such as APEC, and ASEM. ASEM is Asia-Europe Meeting. We have transatlantic marketplace or Transatlantic Economic Council, existing since 1995.
It’s interesting to note that after 2010 or so, we have those interregional cooperation frameworks being developed into full-fledged free trade agreements, interregional FTAs.

Of course, we have difficulties in pursuing the TPP in its original format, and also TPID, because of the political ear of Europe, and also some resistance on the part of new U.S. administration. We will see what will happen.

Today, I’d like to deliver in particular this message. I think Japan’s trade policy is maybe multilateralized, and there are three reasons. One is a systemic reason, from non-binding cooperation to fully binding high level FTAs. So, we have seen it already.

The functional approach, functional reasons, from regional production network developed into global value chain by making new rules on investment, competition, and government procurement. Finally, institutional reasons. We can gather like-minded developing countries to shape the critical mass as we did in the Uruguay Round days.

Multilateralizing regionalism, I’d like to make three points. This is the kind of convergence of liberalization efforts in three major FTAs, TPP, TPID, and the Japan/EU EPA. Second, a new momentum to enforce the trade multilateralism embodied in the WTO through this convergence of major FTAs, and Japan and the United States should demonstrate leadership in TPP and beyond.

Concluding remarks from Japanese perspectives, bearing in mind what I have said, the TPP 12 continuously serves as a template for 21st century type trade agreements, and in practice, Japan would be determined to go ahead with this idea of TPP, even with the U.S. absence.

TPP 11, to keep the momentum for freer trade, while keeping the door open for United States to come back to original TPP.

Third, JCK or CJK trilateral FTA for updating its production network in East Asia, and Japan/EU EPA, the only surviving regional measure, interregional measure FTA to be concluded without any further ado.

In this way, we could perhaps reinvigorate trade multilateralism embodied in the WTO and thus to maintain stability in international business.

Thank you very much, indeed, and I very much look forward to the discussions.
Thank you very much. (Applause)

MS. SOLIS: Thank you very much. Those were really extremely insightful presentations, and I know there must be many questions from the audience, and I appreciate your patience. I am going to limit myself to just one question to begin, but if you give me a chance, I can jump in with more questions.

I want to talk about the interaction between China and the United States, and what that means for the WTO. What I mean is that many of China’s mercantilist practices, you know, the advantages state-owned enterprises have and that have sometimes resorted in over capacity, the lack of reciprocity, many of the things that Scott highlighted, that are not well covered by the WTO rule book that comes with the inability to update the rules.

On the other hand, what we have heard recently from the new U.S. administration is that they are more willing to try unilateral measures. One, in particular, I think, caught a lot of attention, and that is the decision to launch a study on the potential use of Section 232 to limit imports on steel based on the impact of national security.

That, I think, created some concern because that could then give rise to dynamics, escalation of regulatory measures.

I think we can imagine the fallout if there is this interaction between China’s mercantilism and U.S. unilateralism. To borrow from phrases that I heard some of you mention, interaction of say a control freak Xi Jinping and an unpredictable Trump, and what that would mean for the multilateral trading system.

I think none of us wants to go there. How can we prevent this scenario? Are there more effective strategies in which the United States could encourage reform from China but still abide by a multilateral rules-based system?

Are there unilateral measures that the United States could pursue that nevertheless would not be as disruptive as using national security as grounds for restricting imports? How do we solve this tension, I think, between the two largest economies in the world as they are played out in the WTO setting? Scott, I volunteer you.

MR. KENNEDY: Thank you. I’m volunteered for many things. I’m happy to take a
first crack at this.

I want to say the frustration that I and a lot of others feel about the WTO perhaps is misplaced, and the frustration we have on China aren’t synonymous with each other. There are a lot of things that the WTO is doing right, that it should be doing, and we should try to protect it and strengthen it, not walk away from it. I think any solution involving China, WTO has to be part of the solution in protecting it.

I would say there are going to be things you are going to need to do in addition, and it’s not an either/or, it’s “and,” I think. To some extent, I think we stole defeat from the jaws of victory when we walked away from TPP. You can blame the Trump administration for hammering the last nail in the coffin or putting it on ice, but the Obama administration could have helped conclude it more quickly, could have made a more vigorous effort to get it through Congress once the deal was signed in October of 2015.

So, Democrats and Republicans all share part of the blame, and the last three issues that folks cited probably as a proportion of the total benefits from the deal were just small little things involving drugs, financial services and things, if people had the political commitment, they could have gotten over those.

TPP, the best way to negotiate with China is to not negotiate with China. It is to create rules that China needs to come into compliance with or be at a competitive disadvantage, and address all those gaps in global governance, which are so thorny, particularly with regard to investment.

I think actually most of the big challenges that you hear people say against China are about the difficulties of investing in China, the ownership caps, the areas that you can’t invest in in China, which aren’t covered by the WTO.

I think TPP regional arrangements, critically important. I do also think there could be some unilateral steps. I’m not in favor of looking for a legal fig leaf like 232 to slam China. It’s too obvious, right?

We had the special safeguards case in 2002, the U.S. lost that, which was a probably stronger legal case than 232, I think it was 427, a bunch of three digit numbers in U.S.
trade law that we all are going to become familiar with in the next year or two.

If it was me, I think I would focus on investment, investment constraints. There are a lot less constraints, you can legally limit China’s investment in the United States or have it run through more review processes without at all coming into potential violation of WTO commitments.

Last year, China invested $46 billion in the United States, $9 billion of which was by state-owned enterprises. I think you could be drastic and just stop all new SOE investment or you could push those, have more rigorous review procedures for them, either within SIPHIUS or a new type of process, which I think would be reasonable.

Just one last thing. All throughout U.S. trade law history, in fact, there has been the idea of reciprocity and fairness, not equivalent requirements. I’ve done a little bit of reading on this. Reciprocity doesn’t mean equality. It means some sense of proportional fairness.

In the first treaty the U.S. signed with France, it had reciprocity as part of it. The GATT has reciprocity written into several of its components. It’s not in the new WTO agreements.

Legal compliance is fine as a standard, as long as the distance between legal compliance and what the members think of as fair is relatively narrow. I think what has happened over time is that gap between legal compliance and what people think is fair is widening, and so either you have to change the rules to shrink that distance, or you are going to see a lot of those unilateral actions.

I think that is the challenge, where we are right now.

MS. SOLIS: Thank you. Any other comments from the panel?

MS. DAVIS: I completely agree. TPP would have been a powerful tool, setting a standard that China could aspire to, and creating that incentive.

Short of having a TPP as a pressure point, the Trump administration’s threats of unilateralism perhaps has some positive effect because the danger during the Doha Round was many countries felt the WTO was strong and was a good fall back and the Doha Round could fail and the status quo would persist. We no longer think the status quo can be taken for granted. That may help the Chinese government realize that it will need to step up to take leadership.

I think there has been advocates of the Beijing Round, that the next trade round
needs to have China take a lead role because it actually has the biggest stake in the system, and maybe it will now appreciate that because of all the uncertainty created by the Trump administration.

MS. SOLIS: Very interesting. We have a microphone, if you can raise your hand, and when the microphone comes to you, if you can identify yourself.

MR. WATANABE: I’d like to respond to what you asked to the panel. When I look at the Japanese experience of losing many cases in the GATT dispute settlements, those cases, was it negative or positive to the Japanese economy, Japanese well-being.

Even those cases brought a lot of benefit to the Japanese economy, and I can give you some examples. For instance, in order to protect this white liquor called shochu, they have domestic duties on shochu kept much lower than the imported liquor, like whiskey and brandy.

The European communities at that time brought this case to the WTO, and even previously to the GATT. We lost the case. Thanks to this lost case, those shochu producers really did enormous efforts to improve the quality of shochu, and this also went to some other segments, like Japanese rice wine, Sake, market also improved. They were more seriously producing better quality of Sake, better quality of shochu.

The Japanese corporations certainly should be grateful to European Commission bringing this issue to the GATT dispute settlement.

What I want to say is this dispute settlement, maybe it is a defeat for bureaucracy, it is a defeat for much protected settlements, but I think it is altogether and after all very, very positive for domestic economies.

What China has been doing is quite similar. They have been accused, you know, and their measures sound in violation of the WTO rules, but they are quite determined to bring those issues back into conformity with WTO rules. I think their performance is quite remarkable.

We have to look at kind of domestic politics in Beijing, that there are some parts of Chinese administration, they like to abide by WTO rules, international rules, but they are also confronted with very strong opposition within the same country.

I think it is important that we keep bringing those issues of China if they are really inconsistent with WTO rules, we have to keep bringing those issues into WTO, and then this is to
encourage those segments of people within Beijing, like-minded people to keep conformity with international commitments that China has previously committed to.

I think we should not worry too much, but that we have to bring those issues into the WTO International Court of Justice for Trade. Thank you.

MS. SOLIS: Thank you very much. Questions from the audience.

QUESTIONER: (Inaudible) I have two questions, and the first one is about the balance of benefits debate, where the U.S. and EC at the time was widely ridiculed for introducing the debate. I can remember vividly a few years later, about two years before the end of the round, the Japanese Ambassador generalizing now in Japan we say GATT has been good to us, now it is time to be good to GATT.

I am wondering if China now is in that very position of being good to the WTO, because it is one thing for the President to say the WTO is a great thing, but the Chinese negotiators in the Doha Round had not been up to that standard.

My second question is how the members of the panel would estimate the risk of the WTO being sort of a victim of the renegotiation that the Trump Administration wants to pursue. The WTO is a big obstacle to these renegotiations, because if you get out of NAFTA, you will be confronted by the tariffs of Mexico, or if you renegotiate with Korea. How to get rid of that dilemma.

MS. SOLIS: Thank you.

MR. KENNEDY: In terms of public goods, I think China has decided it is important to provide public goods in a variety of different global governance institutions, and it stakes a lot of its credibility on doing so. At the WTO, there are a growing number of staff members who are from China. One of the Deputy Director Generals is Chinese. One of the members of the appellate body.

China has started the Belt and Road Initiative. This Sunday, there will be a monster meeting in Beijing with 28 heads of State, 110 countries, to support the Belt and Road, which is consistent with WTO principles. They have explicitly emphasized that.

On the other hand, China is still yet to provide public goods that cost it a lot. That is the challenge. The most important public good that China could provide would be more consistent access to its markets.
That is why when Xi Jinping speaks and defends globalization, it sounds helpful to some, but hollow to others. As soon as China is willing to do that, looking from the outside, no one is crying for Chinese exports, right, because China is the world’s largest exporter, but on the other hand, if you’re in China and you’re facing these interests, which you mentioned, and the challenges of slower growth, and you’re facing the leadership transition of the 19th Party Congress and state-owned enterprise problems, you don’t want to give more market access.

If folks aren’t going to walk from the WTO, they are not going to bring a lot of unilateral sanctions against you, then you feel you actually have a little bit of room.

I still think we’re not quite there to where China is willing to make that. If you had a deaf Washington and others who could creatively and effectively, smartly and intelligently use some of these tools to know just how much to push, and if China felt that if it didn’t, not only would it face diplomatic costs but businesses would stop using China as part of the global production network, then I think you would get changes.

I’m just not so super confident that Washington has that current skill set.

MS. SOLIS: Uri?

MR. DADUSH: On how the WTO might be impacted by the bilateralism policy of the United States, where as you know, in the case of Mexico, indeed, the breakup of NAFTA would mean the United States accepting that Mexico -- a big escalation in tariffs, much bigger than the United States can place on Mexico.

That obviously would be a source of friction, but hopefully, it will also be a deterrent for the United States from exiting NAFTA, which would be a crazy thing to do in the first place.

In terms of the other big three, Japan and Germany have big bilateral surpluses with the United States. I don’t see that as being a big issue.

In the case of China, there is no free trade agreement between China and the United States. The issue there is much more complex. I have to say, and I have listened carefully to the discussion on China on the panel and elsewhere, in many places, and it’s amazing to me how people lose the big picture, because the big picture is the Chinese current account surplus has declined from about 10 percent of GDP a few years ago to about 2.5 percent of GDP last year.
Similarly, the U.S. current account deficit has declined.

    China is trying to prevent its currency from depreciating, not appreciating. That is the history. You can lose yourself in the details of the non-tariff barriers, which are indeed an issue, and I think a legitimate issue, to go after, and not only the United States should go after them for that.

    You can lose yourself in the weeds, and lose sight of the history of the reorientation of the Chinese economy to domestic demand, which we have seen in recent years. You can lose sight of the fact that the Chinese played an extraordinary positive role during the financial crisis because of a massive stimulus program that helped everybody.

    Also, you can lose sight of the future, and the future is very simple. China is headed to being the world’s largest trading nation by a very wide margin over the next 20 years. It will be the biggest export market for virtually every country of the world over the next 20 years.

    As we worry about the non-tariff barriers, the impediments which we certainly need to work on, we also need to bear in mind the fact that there is virtually nothing that the international community will be able to do in terms of providing global public goods, a stable, open, and predictable trading system, investment system, climate, I could name any number of areas, without cooperation between China and the United States.

    MS. SOLIS: Well, I certainly wish I could keep you all here and continue this conversation, which is really so rich and interesting, but unfortunately, our time is up, and if you would please join me in thanking the panelists today. (Applause)

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