

Opinion **Global trade**

The WTO has become dysfunctional

Trade rules must acknowledge the benefits of divergent economic models such as China's

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Qingdao port, China: there is little doubt Beijing violates the spirit, if not the letter, of WTO rules on intellectual property and subsidies © AFP

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How will the world trade regime handle a large, increasingly powerful country such as China that apparently plays globalisation by different rules? This is the question that keeps US and European policymakers awake at night. The fever runs highest in the US, where the Trump administration has blamed China for engaging in economic aggression and has declared [trade war](#) in response. The US president's methods may be frowned upon, but the view that something has to be done about China's trade and industrial practices is widespread among mainstream policy elites.

The tone is softer in Europe, but the concern is shared. EU trade commissioner [Cecilia Malmström](#), writing in the Financial Times, asks how we can reconcile China's state-owned enterprises model with a global level playing field?

But US and European policymakers are asking the wrong question. The problem is not with [China's policies](#) as much as it is with the world trading regime. The World Trade Organization — as well as every trade agreement since — has been predicated on the idea that economic practices in different nations would eventually converge. This has not happened, as China's example amply indicates. More importantly, there is no good reason for national economic models to converge in

the first place. World trade rules need to change, regardless of what China does, to accommodate economic diversity.

The trade agreements concluded in the early postwar period left plenty of space for countries to pursue their own paths. The various trade rounds under the old [General Agreement on Tariffs and Trade](#) system covered only explicit barriers to manufactured goods at the border, mainly import tariffs and quotas. Services and agriculture were excluded. Developing countries could do almost as they pleased. When an import surge in garments threatened economic dislocation in developed countries in the early 1970s, a special regime was established that enabled these countries to re-impose quantitative restrictions.

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The WTO changed all that. Negotiated at a time of neoliberal triumphalism, it reached inside the border to constrain domestic policies in subsidies, health and safety and intellectual property. Any domestic regulation with an adverse impact on imports could now be treated as a trade restriction. Subsequent trade agreements went further, prioritising trade and foreign investment over domestic concerns.

Western policymakers tend to think of today's global trade rules as neutral and impartial, treating all participants fairly. But trade agreements are political documents, reflecting the interests of dominant coalitions. Multinational corporations, international banks and Big Pharma play a particularly important role in shaping them. It is no surprise that long-term concerns about development, or indeed labour rights and the environment, are given short shrift.

There is little doubt that China violates the spirit, if not the letter, of WTO rules on intellectual property and subsidies. But when the [US and Europe complain](#) that China is infringing “global norms and rules”, they forget their own economic history. China's policies are not so different from those that they too embraced while catching up with technological leaders of the time. For example, US patent rules were notably lax in the late 18th and 19th centuries, and the US textile industry would never have arisen without widespread “theft” of technological secrets from Britain. Similarly, many of Europe's industries, such as aircraft, steel and cars, were nurtured by government support.

They also forget that China's heterodox policies have generated not only significant domestic economic growth and poverty reduction, they have also created a huge market for western exports and investment — a market that surely would not have been as large if China had been hemmed in by western textbook economic policies.

When they are better suited to local realities, divergent economic strategies are beneficial to trade partners. Of course, government activism can be taken too far. But even then, it is the domestic economy that bears the brunt of the cost — just as with the EU's wasteful common agricultural

policy. For its part, China must recognise that other nations also have the right to craft their own social and economic strategies. When trade threatens to undermine domestic labour standards, fiscal systems, or investments in advanced technology, rich nations should be just as entitled to privilege these concerns over imports and foreign investment.

If the WTO has become dysfunctional, it is because our trade rules have over-reached. A fair world trade regime would recognise the value of diversity in economic models. It should seek a modus vivendi among these models, rather than tighter rules.

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