

Financial Times (April 29, 2019)

Opinion **US-China trade dispute**

## China, the US and trade in a dog-eat-dog world

*An agreement between the world's two biggest economies would sideline the WTO*

EDWARD LUCE



**FORGET FOR A MOMENT HOW MANY BUSHELS OF SOYABEANS CHINA WILL PROMISE TO BUY FROM AMERICAN FARMERS. LEAVE ASIDE CHINA'S EXPECTED VOW TO STOP ITS THEFT OF US INTELLECTUAL PROPERTY. SUCH PLEDGES WILL BUOY THE MARKETS WHEN DONALD TRUMP AND XI JINPING FINALLY UNVEIL THEIR DEAL.**

**THE RADICAL PART IS THE WAY IN WHICH THEY HAVE AGREED TO HOLD EACH OTHER TO ACCOUNT. UNLIKE TRADE DEALS SIGNED UNDER MR TRUMP'S PREDECESSORS, THIS ONE CALLS FOR NO THIRD PARTIES TO BE INVOLVED. EACH COUNTRY WILL BE LICENSED TO DECIDE WHEN THE OTHER IS IN BREACH. HAVING SOUGHT A RESET WITH CHINA, MR TRUMP WOULD BE ENSHRINING A DIET OF ENDLESS TIT-FOR-TAT. IF EVER THERE WAS A BLUEPRINT FOR BILATERAL INSTABILITY, THE COMING US-CHINA DEAL WOULD QUALIFY.**

**BUT THAT IS ONLY HALF THE STORY. THE OTHER IS WHAT THE COMPACT WILL DO TO EVERYONE ELSE. WHEN THE WORLD'S TWO LARGEST ECONOMIES AGREE TO SETTLE**

DISPUTES BETWEEN THEMSELVES, THE WORLD TRADE ORGANIZATION IS INSTANTLY SIDELINED. AS IT IS, THE WTO NO LONGER ACCEPTS NEW CASES BECAUSE THE TRUMP ADMINISTRATION IS BLOCKING A QUORUM ON ITS APPEALS BODY. NOW IT WILL BE RELEGATED TO A BYSTANDER. ONE OF THE SIGNATURE CREATIONS OF AMERICA'S GLOBAL LEADERSHIP WOULD BE HALFWAY TOWARDS IRRELEVANCE. THIS IS NOT JUST THE OUTCOME OF MR TRUMP'S "AMERICA FIRST" PHILOSOPHY. IT WILL BE A CO-PRODUCTION WITH CHINA. **IRONICALLY, OTHER COUNTRIES COULD SUE CHINA AT THE WTO FOR ITS EXPECTED PLEDGE TO BUY MORE US GOODS. THAT WOULD BREACH THE PRINCIPLES AT THE HEART OF THE FREE TRADE SYSTEM.**

DO NOT EXPECT THE EQUITY MARKETS TO WORRY ABOUT THE DEAL'S PITFALLS. EXCEPT WHEN PRICES ARE FALLING, MR TRUMP BELIEVES THE STOCK MARKET IS ALWAYS RIGHT. IN THIS CASE, HE WILL SURELY BE REWARDED. WHAT FOLLOWS IS ANOTHER MATTER.

MUCH AS GRAZING HERDS IN SEARCH OF GREENER PASTURES IGNORE THE SCREE SLOPES BEYOND, MARKETS ARE OFTEN MYOPIC. ALMOST REGARDLESS OF ITS CONTENTS, A DEAL WILL TRIGGER A RELIEF RALLY. THE SPECTRE OF A DANGEROUS NOSEDIVE IN US-CHINA RELATIONS WOULD HAVE BEEN AVERTED. BUT IT WOULD COME AT THE EXPENSE OF FUTURE STABILITY.

THERE ARE THREE REASONS TO WORRY ABOUT THE DEAL'S IMPACT ON THE GLOBAL ECONOMY. THE FIRST IS THAT IT WILL DEEPEN UNCERTAINTY. ONE OF THE KEY BENEFITS OF THE WTO HAS BEEN TO ENABLE TRADE DISPUTES TO BE SETTLED AT ARM'S LENGTH FROM POLITICAL CAPITALS. COUNTRIES MAY NOT LIKE INDIVIDUAL RULINGS. BUT THEY GENERALLY ACCEPT THEM BECAUSE THEY KNOW FUTURE DECISIONS MIGHT GO IN THEIR FAVOUR. CLEAR RULES AND A PREDICTABLE PROCESS ALLOW THE PRIVATE SECTOR TO TAKE DECISIONS WITH MORE CERTAINTY. IT IS HARD TO IMAGINE HAVING TODAY'S SOPHISTICATED GLOBAL SUPPLY CHAINS — AND THE ASSOCIATED BENEFITS OF POVERTY REDUCTION, LOWER CONSUMER PRICES AND SKILLS TRANSFER — WITHOUT A STABLE TRADE REGIME. MR TRUMP AND MR XI ARE POISED TO UNDERMINE THOSE ARRANGEMENTS.

**IRONICALLY, THE US HAS WON THE VAST MAJORITY OF CASES IT HAS TAKEN TO THE WTO. (LIKE MOST COUNTRIES, THE US LOSES MOST COMPLAINTS AGAINST IT.) DO NOT EXPECT MANY IN WASHINGTON TO TRUMPET THAT FACT.**

THERE IS A HARDENING BIPARTISAN CONSENSUS IN FAVOUR OF A NEW COLD WAR WITH CHINA. UNLIKE THE ORIGINAL ONE WITH THE SOVIET UNION, IN WHICH TRADE BETWEEN THE TWO BLOCs WAS MINIMAL, THIS IS BETWEEN DEEPLY ENTWINED GIANTS. THE COMING DEAL'S **ENFORCEMENT MECHANISM** WILL OFFER DEMOCRATIC AND REPUBLICAN PRESIDENTS AN IRRESISTIBLE SET OF PUNITIVE TOOLS TO USE AGAINST CHINA. THERE WILL BE NO WTO TO KEEP THEM HONEST. NOR WILL THERE BE ANY NATURAL BREAKS BETWEEN TRADE POLICY AND DIPLOMACY. MR TRUMP HAS CITED US NATIONAL SECURITY AS GROUNDS FOR TARIFFS ON EUROPEAN AND CANADIAN METAL IMPORTS. PRETTY MUCH ANY CHINESE ECONOMIC ACTIVITY CAN ALSO BE BLOCKED ON THOSE GROUNDS.

**THE SECOND CONCERN IS THAT THE TRADE DEAL WILL FURTHER WEAPONISE THE RULE OF LAW.** JUDICIAL HOSTAGE TAKING IS BECOMING MORE FREQUENT. AFTER CANADA DETAINED MENG WANZHOU, A SENIOR EXECUTIVE AT HUAWEI, ON A US ARREST WARRANT,

**CHINA ARRESTED — AND CONTINUES TO DETAIN — TWO CANADIAN NATIONALS. MR TRUMP THEN SUGGESTED HE WOULD DROP MS MENG'S CASE IN EXCHANGE FOR CHINESE TRADE CONCESSIONS.**

**SOME WESTERN EXECUTIVES TELL ME THEY HAVE CUT BACK ON TRIPS TO CHINA RECENTLY. CHINESE EXECUTIVES ARE ALSO SAID TO BE DOING THE SAME IN REVERSE. MEANWHILE, CHINESE STUDENT ENROLMENT AT US UNIVERSITIES IS FALLING. WHEN THE RULE OF LAW IS SUBJECT TO POLITICAL WHIM, THE EFFECT ON BUSINESS CAN BE CHILLING.**

**THE FINAL WORRY IS THE DEAL'S IMPACT ON GLOBAL POLITICS. WESTERNERS HAVE LONG ASSUMED THAT AS CHINA BECAME MORE INTEGRATED WITH THE GLOBAL ECONOMY, IT WOULD MOVE CLOSER TOWARDS SOMETHING RESEMBLING LIBERAL DEMOCRACY. IT WOULD BE A TROUBLING IRONY IF CHINA'S INFLUENCE DREW THE REST OF THE WORLD IN THE OPPOSITE DIRECTION. AT FACE VALUE, THE LOOMING TRADE DEAL WILL PROBABLY LOOK LIKE A VICTORY FOR MR TRUMP. FURTHER REFLECTION REVEALS HOW MUCH DAMAGE THE DEAL WOULD DO TO THE RULES-BASED ORDER THAT AMERICA CREATED.**

**THE BEST WAY TO MODIFY CHINA'S BEHAVIOUR WOULD BE TO BEEF UP GLOBAL RULES. WEAKENING INTERNATIONAL BODIES SUCH AS THE WTO, THE WORLD BANK AND THE UN SENDS THE OPPOSITE SIGNAL. IN A STABLE ECOSYSTEM, SMALLER SPECIES THRIVE. IN A DOG-EAT-DOG WORLD, EVERYTHING STARTS TO LOOK LIKE DINNER.**