

Trump threatens unilateral action against World Trade Organization

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30 July 2019

President Trump has widened the scope of the US trade war, taking aim at the World Trade Organisation (WTO) and the “developing” country status it gives to China and other countries under agreements reached when it was established in 1995, replacing the General Agreement on Tariffs and Trade.

The Trump administration has criticised the provision for some time, saying it gives China and other countries an unfair advantage under conditions where vast changes have taken place in the global economy over the past quarter-century.

The criticism has now led to a threat by Washington to take unilateral action. The White House issued a memorandum on Friday giving the US trade representative (USTR) power in 90 days’ time to no longer treat designated countries as having “developing” status unless “progress” is made on changing the rules of the WTO.

The memorandum has attracted little media attention, but it represents a significant US challenge to the structure of the WTO, the world’s major trade regulatory body. Trump has railed against the operations of the organisation for some time, issuing threats that the US might withdraw from it. Washington has refused to sign off on the appointment of new members to its appellate body, effectively crippling its operations in adjudicating trade disputes, on the grounds that it has made “activist” interpretations detrimental to the US.

According to Friday’s memorandum, while there have been major economic changes since 1995, “the WTO continues to rest on an outdated dichotomy between developed and developing countries that has allowed some WTO members to gain unfair advantage in the international trade arena.”

It said nearly two-thirds of WTO members had been able to designate themselves as “developing” countries, thereby obtaining “special treatment” under WTO rules.

The document declared that while some designations were “proper,” many were unsupportable in the light of current economic circumstances. It cited economies such as Brunei, Hong Kong, Kuwait, Macao, Qatar, Singapore and the United Arab Emirates, which, despite being among the richest economies on the basis of per capita gross domestic product, currently claimed “developing” country status. It noted as well that Mexico, South Korea and Turkey, members of both the G20 and the Organization for Economic Development (OECD),

also claimed this designation.

The main target of the US move is China. The memorandum said that since joining the WTO in 2001, China had continued to insist it was a “developing” country and was able thereby to avail itself of “flexibilities under any new WTO rules.”

“The United States has never accepted China’s claim to developing country status and every current economic indicator belies China’s claim,” the memorandum said. It pointed to China’s “explosive” growth to a position where it now had the second highest GDP in the world, topped only by the US, and the five-fold increase in its share of global goods exports between 1995 and 2017. These exports were not confined to low-wage manufactured goods, but extended to high-technology products. China, in fact, currently ranked first in this area.

The trade statistics, taken on their own, give a somewhat distorted picture because much of what counts as Chinese high-tech exports are goods that have been assembled as part of the operations of US firms. But the focus on this area underscores concerns in the US political, military and intelligence establishments that China is developing new technologies that will challenge the global dominance of the US.

Seeking international support, the memorandum said the need to “reform” international institutions was a challenge not just for the US, “but for all countries that participate in the global marketplace.” It added that there was “no hope of progress in resolving this challenge until the world’s most advanced economies are prepared to take on the full commitments associated with WTO membership.”

But rather than seeking changes through the framework of the WTO, the US is seeking to force the issue by taking unilateral action.

The USTR, the memorandum said, would use “all available means to secure changes at the WTO that would prevent self-declared developing countries from availing themselves of flexibilities in WTO rules and negotiations that are not justified by appropriate economic and other indicators.” It added that the US would “pursue this action with other like-minded WTO members.”

The USTR would report to the president within 60 days on progress made in such endeavours, and if within 90 days

“substantial progress” had not been made, the US would take unilateral action.

This would include not recognising a country’s “developing” status if it was the USTR’s judgment that it was “improperly declaring itself a developing country” and “inappropriately seeking the benefit of flexibilities” under WTO rules.

“Where relevant,” the United States would not support any such country’s continuing membership in the OECD. This threat does not impact China, which is not a member of the OECD. But it would affect Mexico, South Korea and Turkey, all of which have come into conflict with the US.

The memorandum specified that the USTR should consult with the US National Security Council and the National Economic Council on the “advisability of interagency coordination,” meaning any action would be considered a “national security” issue.

According to a report in the *Wall Street Journal*, non-recognition of a country’s claimed developing status would not have an immediate effect, unlike other measures taken by the administration on tariffs. The *Journal* cited Cleve Willems, who worked on trade and WTO policy in the White House until last April, who said any change would affect only “small stuff” in the short term. But it would shape ongoing WTO negotiations in fishing subsidies and e-commerce.

In issuing the memorandum, Trump clearly has a broad agenda in view. In a tweet posted on Friday announcing the decision, he wrote: “The WTO is broken when the world’s richest countries claim to be developing countries to avoid WTO rules and get special treatment. No more!!! Today I directed the US Trade Representative to take action so that countries stop cheating the system at the expense of the USA!”

Beijing responded Sunday to the latest US move with an editorial in the state-owned *People’s Daily* declaring that the classification of a country as a “developing nation” should not be defined by the interests of the US, and reform of the WTO should not be determined by a few “hegemonic countries.” It said the 90-day deadline set down by the US had laid bare its “arrogance and impudence.”

The timing of the memorandum was obviously aimed at putting pressure on China in the face-to-face trade negotiations that resume in Shanghai this week, following the collapse of talks in mid-May. The US is seeking an immediate commitment from the Chinese side for increased orders of soybeans in order that Trump can tout a victory to sections of his electoral base in agricultural states.

The Chinese side may be prepared to make such an agreement, but it will depend on how far the US is prepared to go in relaxing the restrictions imposed on the telecom company Huawei when it was placed on the Commerce Department’s entity list, banning it from receiving components from US suppliers unless they received a license. Talks were held with the executives of US high-tech firms last week, but it was still not clear what would or would not be covered.

The substantive issues that led to the breakdown of the talks, including the retention of tariffs by the US even after a deal is signed and stipulation that Beijing must write into law measures demanded by the US for the protection of intellectual property rights, as well as reductions in state-subsidies to Chinese firms, remain unresolved.

Media reports in both the US and China hold out little prospect of an agreement emerging from the latest round of discussions. In a briefing to reporters on Friday, Trump suggested that Beijing might decide to wait until the outcome of the 2020 election.

White House economic adviser Larry Kudlow has warned that the addition of “hardliners” on the Chinese side—a reference, without naming him, to the inclusion of Commerce Minister Zhong Shan in Beijing’s negotiating team—could complicate efforts to make a deal. Kudlow had claimed in May that such an agreement was 90 percent complete.

This view was dismissed by China analyst Pauline Loong, managing director at the research company Asia-Analytica, in remarks to *Bloomberg News*.

“This is not some minor discussion with give and take on minor issues,” she said. “The concessions now needed to clinch a deal will require decisions at the Politburo Standing Committee level, not at the level of the negotiating team.”

China is by no means the only target of US economic warfare. Last Friday, as he issued his memorandum on the WTO, Trump also took aim at France, warning that it would face retaliation over the decision by the Macron government to impose a digital services tax on US tech giants, including Apple, Facebook, Amazon and Google.

“We will announce a reciprocal action on Macron’s foolishness shortly,” Trump wrote on Twitter. Expanding his remarks at a press briefing, he said: “I told them. I said ‘Don’t do it, because if you do it, I’m going to tax your wine—tariff or tax, call it whatever you want.’”

White House spokesperson John Deere said the US had consistently stated it would “not sit idly by and tolerate discrimination against US-based firms.” The administration had launched an investigation under Section 301 of the 1974 Trade Act into France’s digital services tax, he said.

This is the same legislation that has been used to impose a 25 percent tariff on \$250 billion worth of Chinese goods, with the threat of more to come.



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