

# Impact of Trade Politicization on the Multilateral Trading System

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**Abstract:** In recent years, the trend of politicization of trade has become increasingly fierce. The reasons are as follows: firstly, at the ideological level, it is caused by the zero-sum game thought prevailing in the international society dominated by the West. Secondly, at the political level, the change in the balance of power between developing and developed countries leads to the decline of the leadership of western developed countries in terms of global governance. Thirdly, at the economic level, the balance of economic power and the evolution of the international division of labor has tilted in favor of developing countries, which in turn has damaged the interests of developed countries. Therefore, developed countries, led by the United States, have stepped up the rhetoric for the politicization of trade to reconstruct the global industrial chain and artificially promote the two-way transfer of manufacturing industry. At the same time, they attack the global trade governance system with the WTO as the core and try to restructure the international economic order and trade rules to serve their own interests. In this regard, the starting point and goal for China should be to maintain strategic focus and put its own house in order so as to meet the challenges of the future. We should undertake domestic reform in an all-round manner to unleash the huge domestic cycle, promote diversified regional economic integration, actively advance economic globalization, firmly support the multilateral trading system with the WTO at its core as an effective way to curb the politicization of trade, and contribute China's wisdom and solutions to the global pool of knowledge.

**Keywords:** Trade Politicization, Global Trade Governance, Economic Globalization

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In recent years, economic globalization has been greatly impacted by trade protectionism and populism in some countries. The global pandemic of COVID-19

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and the conflict between Russia and Ukraine have slowed down, stalled, and in some cases even reversed international trade, investment, capital flow and people-to-people exchanges. Accompanying or underlying these phenomena is the tendency towards politicization of economic issues. Economy, trade and investment are no longer just a matter of consideration or competition for maximizing economic interests. Instead, they are often linked to non-economic factors such as national security, ideology, values, human rights, environmental protection and social equity. International economic competition has rules to follow. For example, the WTO rules formulated after decades of multilateral negotiations basically cover all aspects of the trade field, so that conflicts between countries can be effectively resolved or controlled. However, the politicization of economic issues goes beyond the scope of traditional trade rules. WTO rules have always held vague positions on issues such as national security, human rights and environmental protection, in an attempt to avoid the infiltration of these non-economic issues. However, as the United States, the *de facto* leader of the WTO, began to preach that “economic security is national security”, frequently used national security and human rights as an excuse to directly interfere in international trade and investment behaviors, and tried to reshape globalization and revive its manufacturing industry, the tacit understanding and consensus of WTO members on the “decoupling” of trade and security collapsed. The increasing scope and extent of the politicization of trade is now out of control.

Since the 2008 international financial crisis, the politicization of trade has become increasingly fierce. The United States regards emerging economies, such as China, as a threat to the continuance of its global hegemony, and so it successively introduces discriminatory and directional economic and trade policies. In 2018, the then US President Donald Trump unilaterally provoked trade frictions between China and the US. Unilateralism and trade protectionism prevailed, and the politicization of trade continued to escalate, which was exacerbated by the COVID-19 pandemic. The Biden administration has continued the

Trump administration's policy of politicizing trade issues, constantly using trade as a means to suppress China, and the multilateral trading system is facing unprecedented and unforeseen strain.

## I. TYPICAL FEATURES OF POLITICIZATION OF TRADE

The politicization of trade is one aspect of the politicization of the international economy, including the politicization of domestic trade policy and international economic and trade rules.

### A. Politicization of Domestic Trade Policy

When countries make international trade policies more frequently to satisfy their domestic needs or to further their international political agendas and national interests, domestic trade policies will show the characteristics of politicization. Some countries actively formulate trade policies to achieve political goals, while those affected or discriminated against actively formulate trade policies to offset the negative impact.

#### *1. Export Control*

Export control is a means of national management of foreign trade, and can also be used to implement foreign differential treatment and discriminatory policies. It is mostly adopted by the United States and other developed countries. In terms of multilateral export control, in 1949, the United States led the charge for the establishment of the Paris Coordinating Committee for socialist countries. After its formal declaration of dissolution, in 1995, the United States again promoted the multilateral export control regime known as the Wassenaar Arrangement for developing countries. In terms of unilateral export control, the United States passed the Export Administration Act in 1979 and the Export Control Reform Act in 2018. The United States, Japan and other countries have consistently formulated directional and discriminatory trade policies based on ideology, which clearly shows the politicization of trade policies. After the 2008 international financial crisis, the then US President Barack Obama

proposed to reform the export control system in 2009, but when the former US President Donald Trump was in office, he further tightened the regulations pertaining to the export of dual-use items and technologies from the US. In 2021, the EU followed closely and adopted its own Dual-use Item Export Control Regulations. Included in this list are nuclear materials and facilities equipment, special materials and related equipment, electronics and computers, telecommunications and information security products, navigation and avionics equipment and related software and technology. A group of developed countries, led by the United States, tried to change the standards of the international multilateral export control system through their various domestic Export Control Laws and effectively create a technological blockade against specific countries.

## *2. Human Rights Issue*

The human rights issue is also a topic that western developed countries, represented by the United States, are good at hyping in economic and trade relations. For a long time, the United States has linked human rights with economic and trade issues, labeling trade as engines for growth of “democracy” and “human rights” in order to achieve its own national and international goals. Much suffering was caused due to actions such as the 60-year blockade against Cuba, the seizure of overseas assets of Afghanistan, and the unilateral economic sanctions against Iran. In the late 1980s, the United States hyped up the human rights issue by linking human rights with China’s most-favored-nation treatment and making groundless accusations about China’s human rights record. Finally, under the lobbying of the US business interest groups, in 1994, the then US President Bill Clinton announced that the human rights issue and the issue of most-favored-nation treatment in China would be de-coupled. However, the Biden administration has repeated these old tactics. The “Xinjiang Related Act” that took effect in 2022, is set to disrupt trade under the pretext of non-existent human rights issues in order to achieve its political goals. This is a full-fledged and unabashed abuse of the “long-arm jurisdiction” that the US

insists on applying. Without any evidence, the United States falsely accused China of the existence of forced labor in Xinjiang, imposed import bans on enterprises identified as benefiting from “forced labor” in Xinjiang, and ordered the suspension of the import of Uniqlo T-shirts from Japan on the grounds of human rights issues. In the arena of economic and trade relations, the United States rallied other countries to oppose China under the guise of “human rights abuses”.

After the 2008 international financial crisis, internal conflicts intensified within the United States. In order to quell domestic discontent as well as maintain its leadership position in the world, the United States actively formulated new foreign trade policies. As the largest economic power in the world, the United States aims to maintain its global hegemony and lead the politicization of trade, which in turn leads to the politicization of trade policy.

### B. Politicized International Economic and Trade Rules

The politicization of international economic and trade rules means that some countries actively participate in the moulding of the international trade system in order to realize their own interests to the maximum extent because of the different levels of benefits for countries under the current international trading system. Developed countries, led by the United States, dominated the politicization of international economic and trade rules. When the United States, with its expanding economic strength after the Second World War, was in urgent need of expanding its market, the United States led the charge for the establishment of a system of international economic and trade rules based on its own domestic laws, hoping to achieve the goal of market opening and trade liberalization. However, in the late 1970s, when Japan surpassed the Soviet Union and became the world’s second largest economy after the United States, the United States turned to protectionist trade policies in an attempt to restrict Japanese exports to the United States. It can thus be seen that the “freedom” promoted by the United States in economic and trade relations is the “freedom” that serves its own political demands, rather than a truly fair or unbiased system with equal opportunities for all.

Due to the inherent differences between the political systems and ideologies of China and the United States, the United States engages in long-term politicization in its attempts to restructure international economic and trade rules. When China's trade deficit with the United States turned into a growing surplus and China's GDP surpassed that of Japan, making China the world's second-largest economy, the United States was at a loss as to how it should cope with China's rise, and the rising domestic discontent over the unfair and uneven distribution of the dividends of trade liberalization. To preserve its global dominance, the US has further politicized trade. From 2009, when the then US President Barack Obama formally applied to join the TPP (which was withdrawn), to 2022, when the present US President Joe Biden announced the launch of the Indo-Pacific Economic Framework, the US-led politicization of international economic and trade rules has been increasing. "Indo-Pacific Economic Framework" is intended to "reshape China's surrounding strategic environment" economically and reduce the dependence of US on Chinese supplies in key areas like mineral products, new energy products, semiconductors and other important fields, so as to maintain and compete for the leading role in the restructuring of the international economic and trade rules to promote and safeguard American interests in certain regions. Its political objective is also clear, namely to create geopolitical confrontation and use trade as a means to suppress China and other similar countries. Political objectives and ideologies have become the focal point for the United States as it seeks to dominate the international economic and trading regime, and this has seriously damaged the general trend of multilateral trade liberalization and violated the basic international economic laws. Developed countries, led by the United States, gradually lost their competitive advantages under the old international trade rules, and are eager to promote their own interests and standards through bilateral and regional economic and trade relations, trying to eliminate the existing multilateral trading system with the WTO as the core, and establish a new system of international economic and trade rules in line with American (and western) political demands and values.

## II. MAIN REASONS FOR THE INCREASING POLITICIZATION OF TRADE AND DEVELOPING TREND OF TRADE POLITICIZATION

### A. The Main Reason for the Increasing Politicization of Trade

#### *1. On the Ideological Level*

A deeper reason for the politicization of trade lies in the zero-sum game mentality prevalent in the western-led international community. Zero-sum games originated from “Game Theory” in the 1920s, which holds that competition between countries does not have the possibility of win-win or even increasing the total benefit, and the gain of one side must mean the loss of the other side. The 2008 international financial crisis hit the economies of western developed economies, such as the United States and Europe, hardest and made the adjustment of the respective domestic industrial structures more difficult, exposing the problems of the contemporary capitalist system. On the other hand, emerging economies have begun to become an important force driving world economic growth. The proportion of developing countries in the global economy is increasing, and the international economic pattern is changing. Taking China for example, since the reform and opening-up, China’s economy has achieved leapfrog growth. In 2010, the GDP of China surpassed that of Japan for the first time and ranked second in the world, second only to the United States. Western developed countries regard “Thucydides Trap” as an iron law of international relations, that is, a rising power will inevitably challenge the status of an established power, and an established power will inevitably take measures to contain and suppress it. Conflicts, and even wars, between the two are inevitable, which fundamentally reflects the zero-sum game idea in international relations. This can be seen clearly in history from the consistent style of the United States in dealing with its international relations with the Soviet Union and Japan. The western developed economies, led by the United States and Europe, continue to restrict the economic development of emerging economies through various tools of international trade, and China in particular is the object of

continuous and persistent oppression by the United States and Europe. The politicization of trade is one of the means to hinder the development of China and other emerging economies.

The rise of populist social trends in the west has added fuel to the fire of politicization of trade. The US alone has faced the brunt of the 2008 international financial crisis, continued weakness of the US economy, high unemployment rates and worsening of the gap between the rich and poor, all of which led to escalating public discontent. Blaming economic globalization, the United States has taken up a series of anti-globalization measures, and trade protectionism and unilateralism have prevailed. As a result, domestic prices have kept on rising and the real income gap has further widened, fueling the rise of populism. Populism is anti-pluralism and irrational. It is easy to be incited, manipulated and exploited by some conspirators for political purposes. Therefore, it is not conducive to globalization, trade liberalization and boosts the politicization of trade. A series of policy measures promulgated by the former US President Donald Trump after he took office, as well as Brexit, are all manifestations of expanding populism. If it continues to expand and gets out of control, it will easily lead to isolationism. If populism dominates the formulation of trade policies and participates in the establishment of international trade rules, instead of following the rules of market economy, corresponding political problems will not be solved, and it will likely lead to new problems, which will ultimately harm the interests of people all over the world.

## *2. On The Political Level*

The relative change in the power of developing countries and developed countries is an important reason for the increasing politicization of trade. Economic strength is a common indicator to measure national strength. After the 2008 international financial crisis, western developed countries, represented by the US and Europe, were seriously affected, with rising unemployment, while monetary and fiscal tools available to promote economic recovery and employment were limited. At the same time, developing countries' share of world GDP increased from 40 percent in 2000 to 49 percent in 2010, and the economic strength



and growth expectations of emerging economies and many developing countries have shifted the world's center of gravity from west to east and from north to south. After being affected by the COVID-19, the performance of developing countries and developed countries also has the same characteristics. In 2021, the economic growth of emerging markets and developing economies increased by 6.5%, and that of developed economies by 5%. The recovery speed of developing countries, represented by China, after COVID-19 has surpassed that of western developed countries led by the United States. It can thus be seen that the international political pattern is undergoing profound changes. The power center of the world is gradually beginning to shift from western developed economies represented by the United States and Europe to developing countries and emerging economies. The leadership of western developed economies, such as the United States and Europe, in global governance is declining, which leads to unbalanced psychology and even hostility of developed countries towards developing countries, represented by China. The western developed countries seek to maintain status quo, and so they discriminate, suppress and inhibit the development of these latecomers by politicizing trade.

The great power game between China and the United States is simply a manifest expression of the insecurity and alarm felt as a result of the relative changes in the positions of the major and lesser powers in the world, and the general trend of the rising east and the falling west. The improvement of China's comprehensive national strength and the rapid growth of its national economy have brought invisible pressure and challenges upon the United States. The deeper problem lies in that, in addition to the fact that the rapid growth of China's economic strength has stimulated the "sense of danger" in the United States, the differences between the political systems and ideologies of the two nations has always been a major reason for the unease of the United States. In the context of globalization, western developed countries take their own values as "universal" values, integrate them into the system of international governance and expand them globally, which in turn creates complications in what is already a highly diverse and complex environment. Western developed countries, led by the United States, choose countries with the same values and

norms to form cooperative alliances, while treating other countries with different values differently. In the face of such a highly discriminatory scheme, China has no choice but to make the necessary responses to offset the impact. The conflicts and frictions between China, the world's second largest economy, and the US, the economic hegemon, have been exposed. The trade policies adopted by the US to maintain its position as the global hegemon, and the actions taken by the US to re-dominate the international trade rules, have gone far beyond the promotion or preservation of economic and trade interests, and seek to contain China's development and serve deeper political and ideological agendas and strategic needs.

### *3. On the Economic Level*

Keynesianism provides the theoretical basis for the macroeconomic regulation and control policies of western developed countries. After the global economic crisis from 1929 to 1933, western countries realized that free market competition alone could not solve the contradiction between supply and demand and also employment problems, and that it required state intervention and adjustment. With the development of economic globalization, economic and trade exchanges between countries have become increasingly close. Frictions caused by economic relations lead countries to strengthen international macroeconomic regulation and control, and intervene and regulate international economic and trade activities, which can ease the contradictions and conflicts between economies and promote international trade and capital flow. However, there are also shortcomings. That is, it lacks binding force, fairness and equality, and there can be no perfect supervision mechanism. Meanwhile, it already has had political overtones. After the 2008 international financial crisis, the international balance of power changed and continued to accelerate its evolution. The rise of emerging economies and developing countries was misjudged as a threat by western developed countries led by the United States. Therefore, western developed countries suppressed and contained the progress of developing countries, represented by China, by strengthening their intervention in foreign economic and trade activities to safeguard their respective leadership positions in

the world.

In addition, the evolution of the international division of labor in favor of developing countries has further stimulated the sensitive nerves of developed countries. Two new trends of international division of labor, namely the increasingly detailed division of global value chain, and the increasingly strong transnational mobility of production factors, have broadened the depth and breadth of cooperation between countries in the manufacturing sector. When participating in the international division of labor, developing countries can join the global division of labor as long as they have comparative advantages at the level of production factors, which greatly reduces the standards for developing countries to participate in the global division of labor. By taking advantage of their labor force or natural resources, developing countries can integrate into the global value chain in the processing, assembly, manufacturing and other links of raw materials or products. Meanwhile, developing countries are constantly improving their factor endowment, adjusting industrial structure, and trying to realize industrial development and upgrading. The most prominent one is China, whose industrial comparative advantage has undergone structural changes after its entry into the WTO. The advantage of cheap labor gradually declines, while the comparative advantage of technology and knowledge rises rapidly. The rise of emerging economies and developing countries has created a subtle psychological imbalance in developed countries. The international trade rules system originally centered on developed countries has made developing countries gain some benefits. The developed countries ignored the institutional reform and opening within the emerging economies and developing countries, and tried to restructure international trade rules to suppress the development and rise of developing countries by means of trade.

Trade liberalization is the trend of the times, but it also has some disadvantages. With the rapid spread of trade liberalization, the development imbalance between countries and within countries becomes more and more serious. The 2008 international financial crisis highlighted the unfair distribution of benefits. Trade liberalization is not the root cause of inequities in development, but there are disadvantaged and vulnerable groups, both between countries and

within countries. Although developed countries were not harmed as emerging economies and developing countries benefited a lot from the trade liberalization environment, western developed countries, led by the United States, were also dissatisfied with the profit distribution and tried to achieve their political goals through means of trade, that is, by suppressing countries or international organizations that did not obey them.

### B. The Developing Trend of Trade Politicization

At present, the international economic and political pattern is developing towards multi-polarization, and the rapid rise of China as a socialist country makes the United States feel a sense of crisis and insecurity as to whether or not it can maintain its hegemonic position. Due to the hegemonic logic of the United States, the politicization of trade is inevitable and long-term. It will be a protracted battle to curb the politicization of trade. On the surface, western developed countries, represented by the United States, are dissatisfied with the unequal distribution of interests between developed and developing countries under the existing trade rules system. In fact, it is a competition between the two largest economies in the world. There are three reasons why the United States regards China as a threat: the historical inertia of its hegemonic logic, the creation of a “common enemy” by the United States to divert attention from domestic conflicts, and the boost of right-wing populism in the United States.<sup>1</sup> Since the United States became the world’s largest economy, the Soviet Union, Japan and now China have all been considered “rivals” due to their rise to become the world’s second largest economy. When the Soviet Union was regarded as a “threat”, the United States and the Soviet Union engaged in fierce confrontation in all fields except open war, such as politics, economy, military and propaganda, until the Soviet Union collapsed. When Japan was seen as a “threat”, the US launched a trade war against Japan and forced the yen to appreciate until Japan entered the “Lost two decades”. Although the outcome of the game between the world’s two largest economies was determined

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<sup>1</sup> Zhang Yonghong, A New Round of “China Threat Theory” in the United States: Characteristics, Root Causes and Countermeasures, *Frontiers*, No. 3, 2022.

by internal problems and external competition at the same time, it can be seen that the zero-sum game mentality of the United States is deeply rooted in its attitude towards international relations. Today, when China is regarded as a “threat” by the United States, the United States restrains China’s development by suppressing China in various areas such as trade, human rights, security and technology. The politicization of trade is persistent.

The worsening of the polarization between the rich and the poor in the United States has led to complaints from the common people in the country, while the elites are dissatisfied with the distribution of interests in the current global economic system. In order to maintain their world dominance, some politicians use the scapegoat tactic to shift attention from domestic conflicts towards a “common enemy” of some kind. Especially when the “common enemy” is vastly different from the political and economic system and ideology of the world’s major developed countries, the United States not only strengthens its domestic cohesion, but also wins the support of Japan, Europe and other developed economies. Therefore, as long as the gap between the rich and the poor in the United States is not solved, the developing countries benefit more from trade liberalization than the developed countries, China’s strength keeps growing and approaching that of the United States, the United States will continue to lead the politicization of trade, draw in the western developed countries and try to rebuild an international economic and political system with itself as the centre.

### III. THE IMPACT OF POLITICIZATION OF TRADE ON GLOBAL TRADE GOVERNANCE

#### A. The Impact of Trade Politicization on Global Industrial Chain

Developed countries led by the United States attempted to increase the politicization of trade in order to restructure the global industrial chain, and artificially promoted the two-way transfer of manufacturing, that is, the middle and high-end manufacturing returned to the United States and Japan, and the

low-end manufacturing moved to Southeast Asia, resulting in the inward and regionalization of the industrial chain. Since the beginning of the 21<sup>st</sup> century, China, the United States and Germany have been listed as the three major centers of the current global industrial chain. While, China's position in the global industrial chain has been continuously consolidated and improved, the transfer of industries in the United States has led to the outflow of mid- and low-end manufacturing industries. After the 2008 international financial crisis, developed economies such as the US, Europe and Japan launched their own version of a "re-industrialization" strategy. From Obama to Donald Trump, they all repeatedly emphasized the need to revive the manufacturing industry and tried to encourage the repatriation of domestic high-tech manufacturing. At the same time, developed countries, led by the United States, tried to reconstruct the global industrial chain, and pushed hard to "decouple" from China's economy, transferring labor-intensive manufacturing from China to Southeast Asia, South Asia and other developing regions with low labor costs and improving policy environment. The US-ASEAN Summit held in May, 2022, promised to upgrade the strategic cooperative partnership between the ASEAN and the United States to a "comprehensive strategic cooperative partnership". Although the security alliance means more than economic cooperation, it still reveals America's attention to the Asia-Pacific region, especially to China.

In recent years, countries around the world have shifted their focus from "low cost" to "resilience" and "security" in the global supply chain. In fact, the intention is to achieve "decoupling" from China in the international supply chain. The formation and development of the global supply chain is the result of the market law enforced over a long period of time. It is against the objective economic law to restructure the global supply chain artificially by making trade policies and promoting trade alliances. After taking office, the former US President Donald Trump successively released reports such as *Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resilience*, *Vulnerability Analysis of the Chinese Supply Chain in the US Federal Information and Communication Technology*, and *Supply Chain Risk Assessment of the US Information and Communication Technology*

Industry. It pointed out that nine defense sectors, including aircraft, ship building and space, and seven advanced manufacturing sectors, including manufacturing cyber security and electronic industry, are focused on supply chain flexibility. Japan also proposed “supply chain resilience” shortly after the outbreak of the COVID-19, and then introduced the policy of diversifying its overseas supply chain. It announced that it would provide 2.2 billion US dollars to support Japanese companies to relocate out of China, back to Japan or to South-east Asian countries. Most Japanese companies have plans to replace suppliers, and “adjustment of origin” is also one of the options for some companies. Germany, Britain and other western developed countries also began to pay attention to supply chain security. At the same time, some western countries have launched joint actions on supply chain security. In April, 2021, Japan, India and Australia launched a joint statement on the Supply Chain Resilience Initiative, which plans to integrate supply chain networks into the Indo-Pacific region through trade and investment facilitation and other measures. Under the pretext of safeguarding national security, developed countries led by the United States use trade politics as a means to manipulate supply chain reconstruction in violation of the spirit of ordinary laws of international trade, which is undoubtedly economic hegemony.

Developed countries, led by the United States, prevent and restrict the export of strategic materials and high and new technologies from the west to countries they consider a “threat” by means of export control and other trade measures, so as to limit them to the low end of the value chain for a long time, hinder the economic development of emerging economies, represented by China, and thus curb their growth. As early as 1996, the United States led the western developed countries in science and technology and manufacturing to sign the Wassenaar Agreement, which blocked the technology of China and other developing countries. In fact, as recently as 2007, the US issued a control list, banning the export of 20 categories of high-tech products to China. In 2015, China launched the “Made in China 2025” project, which put the United States and other developed countries at great risk. After the former US President Donald Trump took office, he strictly examined China’s technology acquisitions

in the United States. At the same time, he continued the Cold War mentality and introduced an export control system for emerging technologies. Japan, Australia, Canada and other developed countries have also stopped cooperation with Chinese Internet companies in the field of information, inhibiting the international growth of Chinese Internet companies. In 2022, Japan's *Yomiuri Shimbun* said that Japan would set up an international cooperation framework with Europe and the United States to control the export of advanced technologies, such as semiconductor manufacturing equipment, quantum encryption and artificial intelligence. This is strong evidence of the increase in politicization of trade.

#### B. The Influence of Trade Politicization on International Trade Rules

Although it is a global consensus to restructure international trade rules, the politicization of trade, led by the United States and other western developed countries, has impacted the existing WTO-centered global trade governance system. However, the new order has not yet been formed, and it will be difficult to realize the layout and normal operation of a new system of globalization.

Firstly, with the increasing of the politicization of trade, the game pattern of international trade rules will change. The game of international trade rules will gradually turn into a parallel bloc game and bilateral game, and even a many-to-one game pattern will appear. Since World War II, western developed countries, led by the United States, have dominated the formulation of international trade rules, while developing countries can only passively accept them. However, since the 2008 international financial crisis, the international economic and trading pattern has seen a trend of the “rising east and falling west”, and the economies of western developed countries have suffered. The G20 has gradually become the main platform for global macroeconomic and political coordination, and developing countries and emerging economies have gradually begun to have a certain say in the field of trade rules. In the field of making international trade rules, developed countries and developing countries have basically formed a “bloc game” pattern, but the politicization of trade will change this situation. On the one hand, the bloc game will continue, and the intensity



will be enhanced. Developed countries, led by the United States, believe that developing countries are the beneficiaries of trade liberalization rather than they themselves, so they hope to restructure international trade rules and create new ones based on the promotion of their own interests. However, due to the huge impact of the COVID-19 on the global economy, no country can lead the process of restructuring global trade rules alone. Therefore, western developed countries, represented by the United States, try to act together in order to build group advantages in WTO reform, market economy, state-owned enterprises, industrial subsidies and other fields. Developed countries try to maintain their dominance in the field of international trade rules by strengthening coordination and discriminating against developing countries, and the game of rules between the two groups will become more intense. On the other hand, bilateral games have also become more intense and even a many-to-one game has emerged. Previously, the main platforms for the restructuring of international trade rules were multilateral channels such as the WTO, G20 and TPP, but since the inauguration of the former US President Donald Trump, there has been a major change in the process for the restructuring of global trade rules. The US has demonstrated its opposition to the multilateral trade governance system by blocking the selection of justices of the WTO appellate body, withdrawing from the TPP and suspending the TTIP negotiations. At the same time, the United States is strengthening coordination among developed countries to collectively block China in the 5G technology sector and other fields. At the same time, it is using its “Indo-Pacific strategy” to attract some developing countries, inducing regional powers to take sides, and thus provoking division and confrontation in regions across the world. Trade is becoming increasingly politicized, the restructuring of international trade rules has deviated from the multilateral track, and the intensity of bilateral and many-to-one games is increasing.

Secondly, the politicization of trade has increased the influence of the so-called “fairness” concept. After the 2008 international financial crisis, the United States and other developed countries faced prominent domestic problems, such as declining competitiveness of manufactured goods as well as serious trade deficit in goods. Meanwhile, emerging economies and developing countries,

represented by China, rose rapidly. Western developed countries, led by the United States, believe that developing countries represented by China gain “un-fair competitive advantages” through exchange rates, industrial subsidies and other policies, which has become the focus of criticism by western developed countries in this round of anti-globalization. Therefore, to create new FTAs, promotion of “fair” trade and investment rules has become a major trend in the restructuring of international economic and trade rules at present, and it seems it will be so in the future. Therefore, in the name of “fairness”, the US pursues trade protectionism and builds a “small circle” of regional cooperation, pursuing a policy of openness within the circle and protectionism outside the circle. The US seeks to strengthen the regulation of “in-border” policies through intra-circle cooperation, and enforce the so-called “fairness” of domestic supervision in the fields of environment, labor and competition policy. As for the countries outside the circle, they will be excluded by rules of origin, and “poison pill” provisions will be set up and promoted for non-market economy countries. The answer to the question of whether or not what the US is doing is in pursuit of “fair” competition, or use of trade measures to contain the development of China and other emerging economies in order to maintain its world hegemony, is self-evident.

Thirdly, the politicization of trade undermines global trade governance and makes trade rule-making and coordination mechanisms dysfunctional. Previously, global trade governance was a multilateral trading system with the WTO as the core. However, with the increasing politicization of trade by major economies, global trade governance has become increasingly disorderly, and the platform for restructuring international trade rules has undergone significant changes. After taking office, the former US President Donald Trump obstructed the normal operation of the WTO mechanism, putting the dispute settlement mechanism into a “standstill” predicament. At the same time, he also resorted to unilateralism and trade protectionism, which greatly limited the normal operation and main functions of the multilateral trading system, and posed severe challenges to the role of the WTO as a platform for global trade governance. Western developed countries, represented by the United States, try

to compete for the dominance over trade rules through regional or bilateral free trade agreements, and establish trade alliances and new rules from a political perspective to isolate China and other developing countries. In order to break the blockade, the late entrants will have to accept the prevalent rules, even if at great cost, and the current competitive advantages of the late entrants will be weakened. Finally new rules in line with the interests of developed countries will be set up.

## IV. CHINA'S SOLUTION TO TRADE POLITICIZATION

### A. Deepening Reform to Smooth the Domestic Cycle

In retrospect, the Soviet Union and Japan fell into the “Thucydides Trap” not only because of the oppression and siege of the United States, but also because of the internal evils that played a decisive role. Therefore, China should maintain strategic focus, take running its own affairs well as its starting point and goal, unblock the huge domestic cycle in an all-round way, and enhance the ability to withstand external uncertainties and risks.

#### *1. Promoting Industrial Upgrading and Achieving Scientific and Technological Self-reliance*

“Science and technology are the primary productive forces”, and to achieve a high level of science and technology self-reliance, we should start from human resources, funds, institutional environment and other aspects. In terms of human resources, we must unswervingly implement the strategy of strengthening China through human resources, explore high-level scientific and technological personnel, train a large number of international level, strategic scientific and technological personnel and innovation teams, and fully stimulate and release the enthusiasm, initiative and creativity of scientific and technological personnel. At the same time, a training mechanism conducive to the growth of talented people should be established to cultivate personnel who are calm, committed, active in exploration and willing to sit on the bench. In addition, a more

flexible salary system should be formulated to avoid measuring the income of researchers by quantity and speed, and the ratio between basic security and performance should be adjusted to ensure a stable and decent life for researchers, so as to secure peace of mind during scientific research over extended periods of time. In terms of funding, we should increase investment in basic research, especially in important industries such as energy, communications and semi-conductors, and rely on scientific and technological infrastructure such as universities and research institutions. We must improve the reform of the management system for science and technology plans and science and technology funds, and establish a sound market-oriented system for science and technology projects, allocation of funds and evaluation of achievements. In terms of institutions, we must promote cooperation among enterprises, governments, universities and research institutions, share basic research results, strengthen the implementation of the policy of deducting additional R&D expenses for enterprises, and encourage enterprises and other market entities to focus on research activities.

## *2. Accelerating the Development of a Large, Unified National Market and Breaking Market Segmentation*

Building a large unified national market that is efficient, standardized, fair competition-based, and fully open, and which transforms the domestic market into a large and strong force, will not only provide strong support for the development of China's socialist market economy, but also play a role in the positive development of the international market in light of the increasing politicization of trade. To break market segmentation and accelerate the construction of a national unified large market, we need to focus on three key points: first, to break local protectionism, the main way is to strengthen the unification of basic market institutions and rules, and to implement a unified property rights protection system, market access system, fair competition system and social credit system while taking into account the differences in regional economic development levels; second, we should balance the urban and rural development, improve unified urban and rural land and labor markets, improve the

management system for construction land and cultivated land, and facilitate the smooth flow of labor and human resources across regions; third, we need to promote fair and unified market regulations, enhance market regulation capacity by adopting “Internet plus regulations” and other methods, prevent local governments’ race-to-the-bottom regulatory competition to attract investments, and strengthen unified market regulations and law enforcement.

### *3. Promoting Institutional Opening-up, and Promoting Reform through Opening-up*

China should follow advanced international benchmarks to further improve domestic systems and rules and promote domestic market-oriented reform, thus to speed up the establishment of an updated open economic system. Some scholars give suggestions on promoting institutional opening from three aspects.<sup>2</sup> They point out that China should step up the formulation of unified rules in key areas where it has domestic comparative advantages, and implement and promote “Chinese standards” in international economic and trade cooperation. With the increase in the politicization of trade, and in order to cope with this severe challenge, China should provide its own solutions in areas where it has comparative advantages, such as digital economy governance, participate more actively in global economic and trade governance, and strive to change its role from the defender and promoter of global trade governance rules to the maker of rules.

#### **B. Breaking Down Obstacles in a Gentle Way**

Adhering to the erroneous idea of a zero-sum game, the United States adopts a series of trade measures, such as export controls and tariffs, to try to weaken China’s economy, while also encouraging other countries and regions to isolate China economically and block China technologically, so as to contain China’s development. Taking history as a lesson, in the face of containment, China should “use soft rather than tough” power. The rush to counter will only

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<sup>2</sup> Sheng Bin and Li Feng, Advance High-level Opening-up with Institutional Opening-up as the Core, *China Opening Journal*, No. 4, 2022.

strengthen the cohesion between western developed countries. It should identify the inherent contradictions within the alliance that the United States is trying to build, as well as the contradictions within the United States itself, and “crack down” them one by one.

### *1. Promoting Negotiations on Bilateral Trade Agreements*

It is important to form economic or security alliances against the United States and its interests, and then “attack” one by one. Priority should be given to bilateral cooperation with countries that share common interests and have close economic ties with China, such as seeking cooperation with the EU on climate change. We should actively advance the FTA process through negotiations, and deepen trade cooperation with all countries in the world. In response to targeted strategies such as the “Indo-Pacific Economic Framework” proposed by the United States, China should expand its FTA network from its neighboring countries and core participants of BRI to a larger group of countries. Based on the factors such as political relationship, trade weight, previous agreements and industrial complementarity, certain countries in key regions such as the Middle East, Latin America, Africa, Asia-Pacific and Europe where it is relatively easy to achieve breakthroughs will be selected to strengthen relevant cooperation.

### *2. Promoting the Process of Diversified Economic Integration at the Regional Level*

There is an urgent need to actively enter into high-level RTAs and regional cooperation, and guard against the “marginalization” of voices in the reconstruction of global value chains and the reshaping of international economic and trade rules. On the one hand, in the present situation when the United States is trying to achieve economic “decoupling” from China and encouraging Europe and Japan to end their dependence on China and realize the so-called “security” and “resilience” of supply chain, China should continuously strengthen its ties with major economies, build a more solid global value chain and supply and demand system, deepen cooperation with Europe and Japan, and strengthen economic and trade cooperation with Europe and Japan. This is necessary in

order to consolidate the upstream supply of global value chains and prevent the “de-sinification” of global value chains in the short term and the “marginalization” of global value chains in the changing economic global economy. On the other hand, we should take the initiative to accelerate the implementation and expansion of the Belt and Road Initiative, consolidate the downstream demand of the global value chain, deepen trade cooperation with the RCEP signatory countries, consolidate economic and trade ties and industrial cooperation in East Asia, South Asia and Southeast Asia, strengthen the industrial chain in East Asia, and break the US trade politicization measures.

### C. Promoting Economic Globalization and Upholding the Multilateral Trading System with the WTO at the Core

As a major developing country in the world, China needs to actively promote economic globalization, adjust governance rules at the multilateral level and promote inclusive globalization. At the same time, China should firmly support the WTO-centered multilateral trading system, push forward negotiations on new topics, actively participate in relevant reforms of the WTO, and strive to safeguard the economic functions of the WTO. A multilateral cooperation framework should be adopted to counter the politicization of trade driven by unilateralism and trade protectionism.

#### *1. Adhering to the Principle of “Free” and “Fair” Rule-making*

In view of the trade protectionist policies and economic isolationism carried out by the western developed countries represented by the United States under the pretext of “fairness”, the resulting deviation should be corrected by adhering to the rule-making concept of both “freedom” and “fairness”. The concept of “freedom” calls for the global economies to gradually bring about the free and convenient flow of goods, services, information, capital, technology, personnel and other factors of production across borders by lowering tariffs, non-tariff barriers and other restrictions on trade and investment. In the spirit of “fairness”, on the one hand, we should face up to the differences in level of development of different economies, maintain appropriate flexibility in the

formulation of international trade rules, and give full consideration to the difficulties of developing economies, least developed countries in particular, in integrating into the international economic and trade regime. On the other hand, we should avoid the unreasonable “free riding” behavior of a few members, encourage them to achieve economic development through opening-up and reform, and encourage all members to make due contributions to the construction of new international economic and trade regime.

## *2. Advocating the Concept of “Extensive Consultation, Joint Contribution and Shared Benefits” in Global Governance*

To solve the current problems of global governance, we need not only new rules and mechanisms, but also new ideas of governance. An attempt by one country to take its own political interests as the center as it tries to dominate global trade governance and promote the politicization, instrumentalization and weaponization of trade runs counter to economic laws and will not help improve the global trade governance system. China, on the other hand, should stick to true multilateralism, shoulder its responsibilities as a consequential country, and strive to implement the concept of “extensive consultation, joint contribution and shared benefits” in global governance, that is, international affairs should be governed by all countries and the fruits of development should be shared by all countries, and right to equal voice should not be controlled by only a few countries. As per the concept of global governance, international trade rules should be based on the consensus of all countries through consultation, rather than being dominated by the interests of a few major countries. This view of global governance can effectively counter the politicization of trade caused by the zero-sum game world-view and establish true multilateralism.

## *3. Upholding the Multilateral Trading System Represented by the WTO*

The politicization of trade has brought great crisis and challenges to the current multilateral trading system and greatly undermined the economic functions of the WTO. However, China, as the world’s second largest economy, should play a constructive role in promoting the reform and development of



the multilateral trading system represented by the WTO, finding a path of gradual reform within the existing framework, while making procedural and technical improvements. We should put the multilateral trading system on the right track. With regard to the negotiating function of the WTO, China, while adhering to the consensus principle of the WTO, should appropriately liberalize the “package agreement” and conclude negotiations by adopting majority voting or simplifying the consensus procedure. In addition, it is also necessary to promote the legalization and rationalization of plurilateral negotiations, so as to better integrate plurilateral negotiations into the multilateral framework of the WTO, thereby further improving the flexibility and negotiation efficiency of the WTO and addressing the difficult issues of the WTO. Regarding the dispute settlement mechanism of the WTO, the principle of “unanimity by vote” should be applied when members have doubts about the legal interpretation given by the appellate body, that is, the legal interpretation given by the appellate body should be considered by all members by vote. We need to increase transparency and participation in the WTO’s trade policy review mechanism. It is necessary to restrain the politicization of trade by improving the economic function of WTO, and maintaining its key role in global trade governance.