

Trade War Between the United States and China: Implications for China

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Abstract: This paper examines the evolution of the US–China trade war from 2018 to 2025 and analyzes its legal, economic, and systemic implications for China. It argues that the second trade war differs fundamentally from the first: while the United States has shifted from China-specific tariffs toward universal baseline tariffs applied across trading partners, intensified enforcement against transshipment has effectively ensured that Chinese exports remain subject to punitive tariff rates of at least 85%, severely constraining China's access to the US market. At the same time, major economies are increasingly abandoning the Most-Favored-Nation (MFN) principle in favor of bilateral preferential arrangements, accelerating the fragmentation of the multilateral trading system and undermining the core normative foundations of the World Trade Organization (WTO). China's legal response has correspondingly shifted from reliance on WTO dispute settlement toward challenges within US domestic courts, though these avenues offer only limited practical relief. Economically, China's efforts to offset external pressures through consumption-led stimulus have produced only modest results so far, as structural factors — including household purchasing power, real income growth, living costs, and social protection — continue to constrain domestic demand. The paper argues that as the global trading system moves away from multilateralism toward a fragmented order increasingly shaped by economic security concerns, China's long-term adjustment cannot depend on external legal remedies or rely primarily on short-term stimulus measures. Instead, sustainable adaptation requires deep domestic structural reforms aimed at redistributing income toward households, reducing reliance on export-led growth, and building a stronger welfare state capable of supporting consumption-driven development.

Keywords: US–China Trade War, Tariff Policy, Transshipment, Most-Favored-Nation (MFN) Principle, World Trade Organization (WTO) Reform, Structural Reform, Domestic Consumption, US Domestic Legal Remedies

A defining feature of global economic relations in the 21st century has been

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the US-China trade war. In 2018, the United States imposed sweeping tariffs on Chinese goods under Section 301, citing intellectual property concerns and trade imbalances.¹ A tit-for-tat escalation followed, with both economies imposing increasingly severe duties on each other's exports throughout 2019 and into the pandemic years.² Despite intermittent negotiations and temporary truces, the fundamental disputes over technology, market access, and strategic influence persist. By 2025, the conflict had evolved beyond bilateral tariffs to more complex mechanisms, including universal tariff baselines,³ country-specific surcharges to address issues such as fentanyl,⁴ and intensified enforcement against transshipment. Although the framework shifted to apply broader tariffs across multiple nations, the cumulative impact on China remained substantial, marking a period of ongoing adjustment and strategic repositioning in response to ever-changing US trade policies.

The purpose of this paper is to examine the evolving dynamics of the US-China trade war and its implications for China. This study examines both the legal and economic dimensions of China's response, tracing the shift from reliance on multilateral institutions like the World Trade Organization (WTO) to greater use of domestic legal channels within the US. Economically, this paper highlights the enduring burden of tariffs, the increasing risks associated with transshipment enforcement, and the limited effectiveness of domestic consumption stimulus in counteracting weakened exports. Legally, it examines China's constrained options in a fragmenting global trade order and evaluates the potential consequences of ongoing litigation in US courts. As a result of situating these developments within the broader erosion of multilateral norms and the growing trend toward bilateral arrangements, the paper analyzes how

1 Notice of Modification of Section 301 Action: China's Acts, Policies and Practices Related to Technology Transfer, Intellectual Property and Innovation, *Federal Register*, Vol. 83, 2018, p. 47974.

2 For a brief discussion of the first trade war, see Henry Gao, China's Changing Perspective on the WTO: From Aspiration, Assimilation to Alienation, *World Trade Review*, Vol. 21, No. 3, 2022, pp. 342-358.

3 Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits, *Federal Register*, Vol. 90, 2025, p. 15041.

4 Imposing Duties to Address the Synthetic Opioid Supply Chain in the People's Republic of China, *Federal Register*, Vol. 90, 2025, p. 9121; Further Amendment to Duties Addressing the Synthetic Opioid Supply Chain in the People's Republic of China, *Federal Register*, Vol. 90, 2025, p. 11463.

China may be able to navigate the trade war going forward.

I. SUMMARY OF THE SECOND US–CHINA TRADE WAR⁵

Upon winning a second term, Trump did not waste any time in launching the trade war by issuing the “America First Trade Policy” on his first day in office.⁶ Aware of the importance of trade policy to national security, he instructed the Secretary of Commerce, along with the Secretary of the Treasury and the United States Trade Representative, to “investigate the causes of our country’s large and persistent annual trade deficits in goods, as well as the economic and national security implications and risks resulting from such deficits, and recommend appropriate measures, such as a global supplemental tariff or other policies, to remedy such deficits”, with a report due by April 1, 2025.

Two weeks later, President Trump announced⁷ an additional 10% tariff⁸ on all imports from China, citing a national emergency relating to fentanyl imports under both the International Emergency Economic Powers Act (IEEPA)⁹ and the National Emergencies Act.¹⁰ While the 10% tariff seems low, particularly compared to the 25% fentanyl tariffs against Canada and Mexico, it was on top of the 25% Section 301 tariffs¹¹ that President Trump imposed on China during his first term (and maintained by President Biden),¹² which effectively raised

5 Henry Gao, From Great “Liberator” to “Landlord Seeking Rent”: The Implications of US Reciprocal Tariffs Policy in Asia and Beyond, *American Journal of International Law*, Vol. 119, No. 4, pp. 711–723.

6 America First Trade Policy, *Federal Register*, Vol. 90, 2025, p. 8471.

7 *Supra* n. 4.

8 For a detailed discussion of the different categories of tariffs, see Jeffrey L. Dunoff and Mark A. Pollack, The Trump Administration’s Trade Policy and the International Trading System, *American Journal of International Law*, Vol. 119, 2025, pp. 688–722.

9 International Emergency Economic Powers Act, United States Code, Title 50, Section 1701, and following. For the different legal bases of the various tariffs, see Julian Arato, Kathleen Claussen and Timothy Meyer, Contemporary Practice of the United States, *American Journal of International Law*, Vol. 119, 2025, pp. 668–680.

10 National Emergencies Act, United States Code, Title 50, Section 1601, and following.

11 *Supra* n. 1.

12 Jacob Katz Cogan, Contemporary Practice of the United States, *American Journal of International Law*, Vol. 118, 2024, pp. 717–727.

tariffs against most Chinese products to at least 35%.¹³

Additionally, the order announced the termination of duty-free *de minimis* treatment.¹⁴ Due to this change, all small packages imported from China with a value of \$800 or less will be subject to the full customs process and will be required to pay duties. This effectively destroyed the business model of Chinese firms like Shein and Temu, which relied on tariff exemptions and low shipping costs to compete in the US market.¹⁵ In spite of the fact that the 10% tariff is a small amount, requiring each package to go through the customs process would add several times the value of the package itself to the cost.

As a response, China announced on February 4 that it would impose tariffs of 10%–15% on a variety of energy imports and cars,¹⁶ in addition to export controls on rare-earth minerals.¹⁷ A WTO dispute was also filed the following day by China.¹⁸

The President of the US issued a proclamation on February 10 imposing *ad valorem* tariffs on steel imports and raising aluminum tariffs from 10% to 25%, citing Chinese overcapacity as a destabilizing factor in global markets.¹⁹ His “America First Investment Policy” was announced on February 27, and the Committee on Foreign Investment in United States (CFIUS) was instructed to

13 The Section 301 tariffs applied to approximately 66.6% of US imports from China (about \$335 billion in trade) based on 2017 import levels. See Chad P. Bown, US-China Trade War Tariffs: An Up-to-Date Chart, Peterson Institute for International Economics, <https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart> (Last Visited on July 12, 2026).

14 *Supra* n. 4, Imposing Duties to Address the Synthetic Opioid Supply Chain in the People's Republic of China, Section 2(g); United States Code, Title 19, Section 1321.

15 Rafe Uddin and William Langley, Trump's Crackdown on Trade Loophole to Hit Shein and Temu – and Help Amazon, <https://www.ft.com/content/f763f0e5-6020-41dc-8a78-7f24443f396b> (Last Visited on July 12, 2026).

16 Customs Tariff Commission of the State Council of the People's Republic of China, Announcement on Imposing Tariffs on Certain Imported Goods Originating in the United States, https://www.mof.gov.cn/zheng-wuxinxi/caizhengxinwen/202502/t20250204_3955222.htm (Last Visited on July 12, 2026).

17 Ministry of Commerce & General Administration of Customs of the People's Republic of China, Announcement No. 10 of 2025 on the Decision to Impose Export Controls on Items Related to Tungsten, Tellurium, Bismuth, Molybdenum, and Indium, https://www.mofcom.gov.cn/zwgk/zcfb/art/2025/art_e623090907fc4e1092f0a4db72f57b95.html (Last Visited on July 12, 2026).

18 WTO, China Initiates WTO Dispute Complaint Regarding US Tariff Measures, https://www.wto.org/english/news_e/news25_e/ds633rfc_05feb25_e.htm (Last Visited on July 12, 2026).

19 Adjusting Imports of Steel into the United States, *Federal Register*, Vol. 90, 2025, p. 9817.

restrict Chinese-linked investments across a variety of strategic sectors, which expands the measures announced during his first term.²⁰ In response to China's alleged failure to act on fentanyl, President Trump raised tariffs on Chinese goods to 20% on March 3.²¹ China then responded by imposing additional tariffs of 10%–15% on a variety of US agricultural exports on March 4.²²

II. TARIFFS: NOT THE REAL PROBLEM

As part of the first trade war in 2018, the first Trump Administration largely targeted China alone. A 25% tariff was imposed under Section 301, while only a limited number of products were subject to global duties, such as steel²³ and aluminum.²⁴ Consequently, China was singled out for trade punishment, resulting in a greater relative disadvantage for Chinese exporters compared with those from other countries.

As a result of the second trade war, the structure of the trade war changed under a new “reciprocal tariff policy”, which established a universal baseline of 10% for all partners, with higher rates for countries deemed insufficiently reciprocal. Lesotho received a 50% duty, while several of China's regional neighbors faced steep increases: Cambodia at 49%, Laos at 48%, and Vietnam at 46%, whereas China only received 34%. The most peculiar entry on the list was Heard Island and McDonald Islands, uninhabited Australian territories home only to penguins, which nonetheless received a 10% tariff. After several rounds of adjustment, suspension, and renegotiation, the final structure was clarified by July 31 in a new executive order.²⁵ Tariffs have reached as high as 41% on

20 White House, America First Investment Policy, <https://www.whitehouse.gov/presidential-actions/2025/02/america-first-investment-policy> (Last Visited on July 12, 2026).

21 *Supra* n. 4, Further Amendment to Duties Addressing the Synthetic Opioid Supply Chain in the People's Republic of China.

22 Announcement of the Customs Tariff Commission of the State Council on Imposing Additional Tariffs on Certain Imported Goods Originating in the United States, https://gss.mof.gov.cn/gzdt/zhengcefabu/202503/t20250304_3959228.htm (Last Visited on July 12, 2026).

23 Adjusting Imports of Steel into the United States, *Federal Register*, Vol. 83, 2018, p. 11625.

24 Adjusting Imports of Aluminum into the United States, *Federal Register*, Vol. 83, 2018, p. 11619.

25 Further Modifying the Reciprocal Tariff Rates, <https://www.whitehouse.gov/presidential-actions/2025/07/further-modifying-the-reciprocal-tariff-rates/> (Last Visited on July 12, 2026).

Syria, 40% on Laos, and a full 50% on Brazil as a result of the trade war.

In comparison with 2018, this represented a significant change for China. It was no longer intended for the tariffs to target only Chinese exports. From a relative standpoint, the gap between Chinese exporters and those from other countries has narrowed. In particular, this narrowing was evident during the 90-day suspension beginning on May 12, during which tariffs applied to China as well as other trading partners were reduced to 10%. Despite the fact that the already existing 25% tariffs from the earlier Section 301 case, as well as the 20% fentanyl-related duties, were not eliminated, there was a reduction in the relative disadvantage. According to the WTO, the simple average tariff of the US was just 3.3% (applied) to 3.4% (bound).²⁶ In 2018, China was singled out for 25% tariffs and the difference between its rate and the Most-Favored-Nation (MFN) baseline exceeded 20%. Nevertheless, under the current regime, with tariffs set at 10%, even after accounting for all cumulative levies, such as Section 301 duties and the fentanyl-specific tariffs, China's total rate is approximately 55%, which is only marginally higher than the peak tariffs applied to Brazil and a handful of other countries. However, if meaningful progress is not made in bilateral negotiations, the tariff burden on China could increase significantly, since Trump may reinstate the suspended 24% rate, plus any additional duties he chooses to impose.

III. TRANSSHIPMENT: THE MAIN PROBLEM AT PRESENT

While tariffs were no longer directed exclusively at China, the US introduced a new enforcement focus: transshipment, which involves Chinese goods being shipped through third countries in order to conceal their origin and avoid paying duties. According to the executive order issued on July 31, such practices will incur a punitive tariff of 40%, in addition to any additional penalties under US

²⁶ WTO Tariff Profiles.

customs law.

It is interesting to note that the 40% punitive tariff signaled the floor for the final tariff the US would impose on China, even if bilateral negotiations proceed smoothly. Combined with the existing 25% Section 301 duty and the 20% fentanyl-specific duty, this would result in an effective rate of at least 85% on most Chinese products, a level that would severely limit their ability to compete on the US market.

The development directly undermines the “China Plus One” model, in which manufacturers used Southeast Asia as a production or assembly hub to offset US tariffs on China. As a result of the new measures, firms are being forced to reassess the value of such strategies, as the potential savings associated with transshipment are now outweighed by the costs of detection and penalty.

IV. WTO RULES AND THE EROSION OF MULTILATERAL NORMS

The Chinese government has consistently argued that US tariffs violate core WTO obligations, including the MFN principle, the binding nature of tariffs, and the prohibition on so-called grey measures under the Safeguards Agreement. This claim is not without merit, since many of the bilateral agreements signed between the US and other countries also violated the MFN principle, most notably the Phase One Agreement that China itself concluded with the US during the first trade war.²⁷

In the 2018 trade war, China responded to the US tariffs by imposing its own retaliatory tariffs, which it justified by citing “relevant laws and regulations, such as the Foreign Trade Law of the People’s Republic of China and basic principles of international law”.²⁸ The Ministry of Commerce of the People’s Republic of China (MOFCOM) did not provide further details,

²⁷ *Supra* n. 2.

²⁸ Ministry of Commerce, Notice on the Collection of Additional Tariff on Some Imported Products from the United States, http://www.mofcom.gov.cn/zcfb/blgg/art/2018/art_84a985144b0d47e5bc3e022204dfbf8d.html (Last Visited on September 12, 2026).

but Article 7 of the Foreign Trade Law is of significance,²⁹ which authorizes countermeasures against countries that impose discriminatory trade measures on China. However, the legality of this provision is questionable. It suffers from the same flaw as the US Section 301 legislation, which, although survived a WTO challenge, nevertheless prompted a WTO panel to warn that unilateral determinations of WTO-inconsistency against other countries' measures "before the adoption of DSB findings" might constitute "a *prima facie* violation of Article 23.2(a) [of the DSU]" (emphasis in original).³⁰

In the current trade war, the Chinese government has gone further by citing both the Tariffs Law³¹ and the Customs Law³² in the announcements of retaliatory tariffs.³³ Due to the fact that the Customs Law is primarily a procedural law, the key substantive basis lies in the Tariffs Law. In Article 17, countermeasures are allowed when a trading partner fails to comply with the MFN obligations or tariff concessions, while in Article 18, retaliatory tariffs or restrictions may be imposed when a trading partner violates treaty obligations by imposing discriminatory or trade-restrictive measures against China. However, these provisions face the same fundamental problem as Article 7 of the Foreign Trade Law.

Regarding the "principles of international law", China has not clarified which specific principles it relies upon. Yang Guohua, a former senior official of MOFCOM and professor at Tsinghua University, provides the most comprehensive justification:³⁴ self-defense rights under Article 51 of the United Nations Charter; suspension or termination of treaties for material breach under

²⁹ Foreign Trade Law of the People's Republic of China, paras. 12–501.

³⁰ Panel Report, *United States – Sections 301–310 of the Trade Act of 1974*, WT/DS152/R, Adopted January 27, 2000, paras. 7.95–7.97.

³¹ Tariffs Law of the People's Republic of China, p. 438, <https://flk.npc.gov.cn/detail?id=ff8081818f197cf-0018f1a72b2c801e0> (Last Visited on July 12, 2026).

³² Customs Law of the People's Republic of China, p. 807, <https://flk.npc.gov.cn/detail?id=2c909fdd678b-f17901678bf87f3b0ac3> (Last Visited on July 12, 2026).

³³ *Supra* n. 12.

³⁴ Yang Guohua, International Law Behind the Trade War Between US and China, *International Law Review of Wuhan University*, Vol. 120, 2018, pp. 135–138.

Article 60 of the Vienna Convention on the Law of Treaties; and the right to take necessary measures to safeguard essential interests against grave and imminent peril under Article 25 of the Draft Articles on State Responsibility. These arguments may be persuasive to public international lawyers, but most WTO lawyers would disagree that such broad principles can override specific WTO obligations.³⁵

New in the current trade war is not simply that the US has disregarded WTO rules, but that other major partners have also chosen not to adhere to the MFN principle in bilateral agreements with Washington. An example of this is the EU–US framework agreement that was signed in mid-2025.³⁶ Contrary to the lobster tariff agreement reached between the US and EU in 2020,³⁷ in which the EU extended tariff reductions to all WTO members in accordance with the MFN principle, the 2025 framework did not reference the MFN obligations. It is disappointing that even the EU, which has traditionally been the staunchest defender of the multilateral trading system, has now agreed to bilateral, non-MFN concessions to the US.

This indicates that the WTO system is eroding at a deeper level. The predictability and universality of WTO rules will further deteriorate if the world's major economies pursue bilateral tariff arrangements and exclude third countries. It is possible that the system will devolve into a fragmented regime of bilateral agreements, each based on relative bargaining power rather than on rules-based governance.

V. WOULD THE US WITHDRAW FROM THE WTO?

Recently, several scholars have raised the possibility of the US withdrawing

³⁵ *Supra* n. 2.

³⁶ European Commission, EU–US Trade Deal Explained, https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_1930 (Last Visited on July 12, 2026).

³⁷ Office of the US Trade Representative, Joint Statement of the United States and the European Union on a Tariff Agreement, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/august/joint-statement-united-states-and-european-union-tariff-agreement> (Last Visited on July 12, 2026).

from the WTO,³⁸ or even “kicking it out”.³⁹ In spite of the fact that this poses an interesting theoretical question, it is unlikely to occur in practice for a number of reasons.

First, even if the US were to leave the WTO, most countries remain heavily dependent on the American market for their exports. Even though the US accounts for less than 5% of the world’s population, it is responsible for approximately 30% of the world’s consumption. Due to the size of the US market, it is almost impossible for countries to ignore it when formulating their trade policies. This makes it far more advantageous for other countries to keep the US within the WTO, even if it does not always abide by its rules.

Second, the stance of the US government itself has changed between the first and second terms of President Trump. During his first term, Trump frequently threatened to withdraw from the WTO in a blunt and direct manner. However, he has not renewed these threats during his second term. On the contrary, the administration appointed a veteran trade lawyer as US ambassador to the WTO within the first few months⁴⁰ and a new US Deputy Director-General was appointed.⁴¹ Although these appointments do not entirely reflect US policy, they do signal a willingness to remain actively engaged in the organization. Further, neither President Trump nor the Republican Party invoked the five-year review mechanism under the Uruguay Round Agreements Act⁴² to reconsider US participation in the WTO when the opportunity arose in 2025. Most recently, the WTO was conspicuously absent from the list of

38 Henrik Horn and Petros C. Mavroidis, *Why the US and the WTO Should Part Ways*, <https://cepr.org/voxeu/columns/why-us-and-wto-should-part-ways> (Last Visited on July 12, 2026); James Bacchus, *What Happens if the United States Leaves the WTO?* <https://www.cato.org/policy-analysis/what-happens-united-states-leaves-wto> (Last Visited on July 12, 2026).

39 Kristen Hopewell, *To Save the Global Economy, Kick the US Out of the WTO*, <https://www.politico.eu/article/to-save-the-global-economy-kick-the-us-out-the-world-trade-organization/> (Last Visited on July 12, 2026).

40 Hannah Monicken, *Trump Taps Former USTR General Counsel to Be WTO Ambassador*, <https://insidetrade.com/daily-news/trump-taps-former-ustr-general-counsel-be-wto-ambassador> (Last Visited on July 12, 2026).

41 WTO, *DG Okonjo-Iweala Appoints New Deputy Director-General*, https://www.wto.org/english/news_e/news25_e/ddgno_28jul25_e.htm (Last Visited on July 12, 2026).

42 Uruguay Round Agreements Act, United States Code, Title 19, Sections 3501–3624. For a detailed analysis, see Henry Gao, *Finding a Rule-based Solution to the Appellate Body Crisis: Looking Beyond the Multiparty Interim Appeal Arbitration Arrangement*, *Journal of International Economic Law*, Vol. 24, No. 3, 2021, pp. 534–550.

66 international organizations that the Trump Administration withdrew from, despite its sister organizations such as the International Trade Centre and United Nations Conference on Trade and Development (UNCTAD) being included.⁴³

In summary, since the US is unlikely to withdraw from the WTO, it is practically impossible to exclude it from the global trading system, particularly since the WTO has no mechanism for expelling an existing member. Considering the large US market and evolving approach toward the WTO, discussions regarding “kicking the US out of the WTO” remain largely theoretical rather than actionable.

VI. DOMESTIC RESPONSE OF CHINA: THE LIMITS OF CONSUMPTION STIMULATION

Since the first trade war, China has recognized the risks associated with overdependence on exports to foreign markets. Consequently, the government launched the dual circulation strategy in 2020 in an effort to increase domestic consumption while maintaining export competitiveness. While these efforts have been made, consumption growth has remained subdued over the past five years.

Recently, the government has implemented a number of programs to stimulate household spending, including “trade-in” programs for consumer durables, limited consumer loan incentives, and targeted subsidies for household goods. However, the impact of these measures has been modest. In July 2025, retail sales increased by only 3.7% year-on-year, the slowest pace since December 2024 and a decline from June’s growth rate.⁴⁴ Analysts attribute the slowdown to weak income growth, fragile consumer confidence, and fiscal constraints at the local level. Although these administrative measures may provide short-term relief, they do not address the deeper structural issues that

⁴³ White House, *Withdrawing the United States from International Organizations, Conventions, and Treaties that Are Contrary to the Interests of the United States*, <https://www.whitehouse.gov/presidential-actions/2026/01/withdrawing-the-united-states-from-international-organizations-conventions-and-treaties-that-are-contrary-to-the-interests-of-the-united-states/> (Last Visited on July 12, 2026).

⁴⁴ Jason Douglas, *China’s Economy Shows Signs of Slowing, Raising Pressure on Beijing*, *The Wall Street Journal*, <https://www.wsj.com/world/china/chinas-economy-lost-some-steam-at-start-of-third-quarter-7ffd156f> (Last Visited on July 12, 2026).

are suppressing household demand, such as income inequality, high housing costs, and inadequate social safety nets.

VII. THE TRANSITION FROM INTERNATIONAL TO DOMESTIC LEGAL REMEDIES

As a first recourse in previous trade disputes, China frequently turned to the WTO's dispute settlement system. Despite China's continued filing of complaints in this round of trade war, the weakness of the WTO's Appellate Body and the erosion of the MFN principle have diminished its effectiveness.

Rather, remedies are increasingly sought through the US domestic legal system. A number of lawsuits have been filed in US courts challenging the legality of tariffs imposed under the IEEPA and other statutes.⁴⁵ Some lower courts have found that the IEEPA does not authorize the imposition of unlimited tariffs, although these decisions have been stayed pending appeal. There could be profound implications for the outcome of the case at the Federal Circuit or Supreme Court.

Nonetheless, even if the IEEPA is restricted, Trump could use Section 301 of the Trade Act of 1974⁴⁶ or Section 232 of the Trade Expansion Act of 1962,⁴⁷ both of which he used in his first term to impose tariffs on specific products from particular countries. These authorities remain in place, providing the executive branch with considerable flexibility in implementing targeted trade measures.

There have been significant differences between the first and second US–China trade wars. China is no longer the only country targeted by tariffs, but enforcement against transshipment has created new vulnerabilities. Major trading partners are eroding their MFN obligations, indicating a weakening of the WTO system, whereas the US does not intend to withdraw from the WTO but rather seeks to influence the rules from within.

⁴⁵ See e.g., *V.O.S. Selections, Inc. v. United States*, Court of International Trade, No. 25-00045, Slip Opinion at 1, May 28, 2025; *Oregon v. United States*, Court of International Trade, No. 25-00046, Slip Opinion at 1, May 28, 2025.

⁴⁶ Trade Act of 1974, United States Code, Title 19, Sections 2101–2497b.

⁴⁷ Trade Expansion Act of 1962, United States Code, Title 19, Sections 1801–1871.

A recent submission by the US to the WTO on reform⁴⁸ argued that the MFN principle “was designed for an era of deepening convergence among trading partners” when countries were expected to adopt open, market-oriented trade policies. That expectation, the US contends, “was naive, and that era has passed”. Currently, “an era of deepening divergence” has replaced it with persistent non-market practices, structurally incompatible economic systems, and chronic trade surpluses, which result in economic and political backlash in deficit countries.

It is fair to say that this critique has intellectual force. As I have argued elsewhere, the theoretical basis of the MFN principle, that is, Ricardo’s theory of comparative advantage, is based on assumptions that are increasingly unjustifiable.⁴⁹ Ricardo assumed that countries differ only in relative productivity, that such differences are natural and efficient, and that trading partners are subject to broadly comparable institutional conditions. In his classical example of trade between the UK and Portugal, he assumed that liberal market economies had similar labor and regulatory frameworks. Today, comparative advantage is often achieved through extensive state intervention.

It is not only the US that questions the relevance of the MFN principle in the modern era. According to a submission from EU, “a broader debate on WTO reform” is called for,⁵⁰ specifically inviting reflections on “the role of the MFN principle in today’s context, its link to reciprocity and to members’ respective levels of openness, as well as possible new links between commitments taken and the level of tariffs”. As a result of this convergence of views among major trading powers, it is evident that there is a structural rather than an idiosyncratic pressure on the MFN principle.

In addition, the US has concluded that many of these issues cannot be resolved within the WTO. In the same reform submission, the US explicitly excluded issues such as structural imbalances, overcapacity, overconcentration

48 WTO General Council, Communication from the United States on WTO Reform, WT/GC/W/984, December 15, 2025.

49 Henry Gao and Weihuan Zhou, (When) Can Trade Wars Be Good? *World Trade Review*, Vol. 24, No. 4, 2025, pp. 515–519.

50 WTO General Council, EU Submission on WTO Reform, WT/GC/W/986, January 21, 2026.

of production, economic security, and supply-chain resilience from the WTO negotiations. In other words, the WTO will remain a forum for managing traditional trade frictions, while the most politically significant and strategically consequential issues will be dealt with outside the multilateral system.

China's domestic response has centered on stimulating consumption, but structural constraints limit its effectiveness. The average Chinese household may not possess the purchasing power necessary to sustain consumption-led growth. In recent decades, China's Gross Domestic Product (GDP) has expanded at extraordinary rates, often in double digits, but household income growth has consistently lagged behind the growth of the aggregate economy. Thus, labor's share of national income declined, while the share accruing to state-owned enterprises, local governments, and capital-intensive sectors — particularly those linked to land finance increased significantly.

Therefore, the weak consumption base is not a cyclical problem, but a structural one. Throughout the growth model of China, household income has consistently grown more slowly than the aggregate economy, with the share of national income going to labor declining while investment, exports and local government revenue captured a growing share.

In addition, a credible and comprehensive social safety net is yet to be fully established. Due to the lack of adequate public provision for healthcare, unemployment insurance, pensions, and elder care, households are forced into high precautionary savings. Families save not because they are culturally inclined toward thrift, but rather because the risks of illness, job loss, education costs, and retirement are largely privatized. Despite policy exhortations to “boost domestic demand”, this precautionary behavior suppresses consumption structurally.

In the absence of decisive redistribution of income toward households and a fundamental expansion of the welfare state, efforts to rebalance China's economy toward consumption will be largely rhetorical.

As global trade shifts from a rules-based multilateral system to a fragmented system that is less welcoming to China, China should place a greater emphasis on advancing domestic reforms, especially measures

that complete the unfinished agenda of past reforms and address economic imbalances to unlock greater growth potential. Whether China can navigate this evolving landscape successfully will determine the sustainability of its economic growth and its role in the global trading system.