

# *Study on WTO Reform and China's Strategy Amid China-US Trade Tensions*

**Yichen Zuo**

*School of Law, Southwest University of Political Science and Law, Chongqing, China  
2326261483@qq.com*

**Abstract:** As the global economic landscape undergoes profound changes, the international trade system faces new challenges. By taking unilateral actions to weaken the WTO dispute settlement mechanism (DSM), the United States has effectively obstructed the enforcement of global trade rules, which has intensified trade friction and increased uncertainty in the international market. These developments not only threaten the multilateral trade system but also hinder the global economic recovery, underscoring the urgent need for WTO reform to enhance its fairness and effectiveness. The paper explores the role of the WTO in the global trading system and its limitations, particularly in the context of China-US trade friction. It specifically aims to examine the weaknesses of the WTO DSM, its potential directions for reform, and to propose a response strategy for China to advance the improvement of global trade rules. Through literature review and case study, combined with international law and global economic governance theories, the standpoints of various countries are compared and analyzed, and the feasible path of WTO reform is explored. The results show that the weakening of the WTO DSM has affected the global trade order, and its effectiveness can be enhanced through rule reshaping, multilateral cooperation and mechanism optimization.

**Keywords:** China-US Trade Friction, Dispute Settlement Mechanism (DSM), Multi-Party Interim Appeal Arbitration Arrangement (MPIA), WTO Reform, China's Trade Strategy

## **1. Introduction**

Since its inception, the World Trade Organization (WTO) has been instrumental in driving global trade liberalization and supporting the multilateral trading system. However, with the changes in the global economic pattern, including the rise of China and the development of regional economic integration, the governance ability and adaptability of the WTO have been challenged to a certain extent. In recent years, China-US trade tensions have escalated, with the U.S. adopting unilateral measures that have disrupted the normal functioning of the WTO dispute settlement mechanism (DSM) and added uncertainty to the multilateral trading system. Existing research mainly addresses the evolution of the WTO DSM, the adjustment of global trade rules, and the need for WTO reform. While it generally acknowledges the limitations of the current mechanism in addressing trade conflicts between major countries, there is still significant potential for further exploration into the WTO's specific role in China-US trade tensions, as well as feasible reform pathways and strategies for China. Thus, this study focuses on the limitations of the WTO in the China-US trade friction, analyzes the operational status quo of the DSM and the challenges which it is facing, and explores the direction of reform, while proposing Chinese facing strategies in order to maintain the stability of

the multilateral trading system. Using case studies and comparative analysis, this paper traces the WTO DSM's evolution, assesses challenges through China-US trade disputes, and explores reform possibilities based on major economies' stances and governance theories. As such, it can deepen comprehension of the WTO DSM and trade governance, informing China's global trade strategy.

## **2. Overview of the WTO mechanism and the challenges it faces**

### **2.1. WTO functions and decision-making mechanisms**

The WTO is central to the global trading system, with key functions including setting and enforcing trade rules, monitoring member trade policies, resolving disputes, advancing trade liberalization negotiations, and supporting developing nations. Its core agreements like the General Agreement on Tariffs and Trade (GATT), General Agreement on Trade in Services (GATS) and Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), form a unified framework of international trade rules and facilitate effective dispute resolution through the DSM. Besides, the WTO provides member countries with a platform for trade negotiations and grants developing countries certain policy flexibilities through special and differential treatment (S&D) to help them better integrate into the global trading system. In terms of the decision-making mechanisms, WTO follows the principle of consensus to ensure that all members can participate in decision-making, but it can also lead to long negotiation cycles and less efficient decision-making. Its member-driven model emphasizes national ownership of negotiations, with voting mechanisms such as a two-thirds or three-fourths majority used in specific cases. However, the mechanism risks sidelining smaller economies, compromising negotiation fairness and progress.

### **2.2. Major challenges facing the WTO**

The WTO faces multiple challenges, including the rise of regional trade agreements, the dominance of developed countries in rule-making, and inefficiencies in its decision-making process. Developed countries dominate WTO rule-making to advance their interests, while developing nations, despite highlighting inequities, remain marginalized, thus deepening divisions in global trade governance. As the advancement of the new round of WTO trade negotiations has been blocked, regional and bilateral free trade agreements (FTAs) have been developing rapidly, and the global trade structure has shown a trend towards the coexistence of the multilateral trading system and the regional trading system. The regional integration process in the EU, in particular, has made the international trade landscape more complex, further increasing the difficulty of bilateral trade negotiations. In addition, the WTO's regulatory authority is limited in some areas, and exceptions and exemptions create a regulatory vacuum, thereby weakening the effectiveness of rule enforcement. For example, in some border trade practices, member countries may not be strictly restricted by the relevant WTO rules [1]. Besides, the decision-making mechanism of the WTO is lagging behind in the face of changes in global trade. While consensus ensures broad participation, the negotiation process is slow and often fails to reach effective agreements, with the voting mechanism rarely used due to differing interests. Moreover, developing countries often lack the resources and expertise to impact decisions, while major trading powers dominate key negotiations [2].

## **3. The China-US trade conflict and its effects on the WTO system**

### **3.1. The causes and development of China-US trade friction**

The trade friction between the U.S. and China stems from a complex interplay of economic and political factors, primarily rooted in both economic interests and geopolitical considerations. On the

economic front, the U.S. has maintained a substantial trade deficit with China for years, which it sees as detrimental to its domestic industries and labor market. In response, it has leveraged trade friction to curb the deficit and safeguard its economic interests. Meanwhile, shifts in the global value chain have elevated China’s position in the global industrial hierarchy. Concerned about the potential erosion of its economic dominance, the U.S. has taken steps to limit China’s growth in high value-added industries. Besides, the U.S. and China differ significantly on intellectual property issues. The U.S. has accused China of intellectual property infringement and forced technology transfers, while China highlights its ongoing efforts to strengthen intellectual property protections. [3]. On the political front, the U.S. views China as a key strategic competitor and uses trade friction as a means to preserve its global leadership. Shifts in U.S. trade policy are also shaped by domestic political dynamics, with certain measures driven by economic interests or electoral considerations. Also, the U.S. has strengthened cooperation with its allies and taken united actions against China in specific areas in order to remain its influence in the global economic governance system [3]. As U.S.-China cooperation has deepened, trade friction has broadened beyond traditional goods trade, increasingly extending into areas such as technology, investment, and other sectors of the economy, as illustrated in Table 1 [4]. U.S. trade measures against China have shown a diversifying trend, while China has defended its position in trade negotiations and dispute resolution. Following the 2017 release of the U.S. President’s Trade Agenda, bilateral economic competition intensified, leading to adjustments in friction resolution methods.

Table 1: Developments of China-US trade frictions

Time	Area of Trade Friction	Trade Friction Leader	U.S. Sanctions	Resolution Model
1979-1989	Textiles, industrial goods	U.S.	Quotas, anti-dumping	U.S. investigation filed, ruled, sanctioned--Chinese concessions--The two sides reached an agreement
1989-2001	Textiles, intellectual property rights, market access, most-favored-nation treatment	U.S.	Tariffs, quotas, anti-dumping, embargoes, economic sanctions	U.S. investigates case and imposes sanctions - China protests and implements retaliatory measures - Negotiated mutual compromises to reach agreement
2001-2017	Textiles, electronics, steel, etc., intellectual property rights, market access, RMB exchange rate, labor products	U.S.	Tariffs, quotas, anti-dumping, countervailing, political repression, WTO review mechanism	Formulate policies to protect domestic industries in accordance with relevant WTO provisions, and resolve trade frictions between China and the United States under the WTO framework mechanism through dialog and consultation.
2017-present	Intellectual property, high-tech field products	U.S.	Tariffs, economic sanctions, technological repression	U.S. breaks away from WTO framework, imposes unilateral sanctions on China, China and U.S. engage in bilateral economic and trade negotiations

### 3.2. The impact of China-US trade friction on the WTO

The impact of the China-US trade friction on the WTO is mainly reflected in the paralysis of the DSM and the rise of global trade protectionism. Under WTO rules, appointments to the Appellate Body require consensus approval from the Dispute Settlement Body (DSB), and DSB decisions are adopted unless formally contested [5,6]. Despite a largely smooth appointment process over the past two decades or so, since 2017, the U.S. has blocked the selection of new judges at DSB meetings and used reappointments to hinder the functioning of the Appellate Body, ultimately leading to its paralysis [6]. As of November 30, 2020, the term of the last member of the Appellate Body expires, leaving the WTO unable to effectively address cases, including the China-US trade dispute. Thus, any appeals

have led to Panel reports being indefinitely suspended, undermining the authority of the dispute settlement mechanism [7]. In addition, the China-US trade friction is driving a rise in global trade protectionism, especially in the high-tech area. The U.S. has cited national security concerns to limit Chinese companies' involvement in global supply chains, particularly in key areas like semiconductors, 5G, and artificial intelligence. This blurs the line between trade policy and security policy, challenging WTO free trade rules. The United States also imposed tariffs on China without going through the WTO DSM under Section 301 of the Trade Act of 1974, reflecting the use of unilateral trade measures. This action not only affects China-US trade relations but also fuels discussions on WTO reform among member states [7]. Moreover, the existing rules of the WTO mainly target traditional trade in goods and lack a rounded framework of rules in emerging areas such as the digital economy, intellectual property rights and state subsidies. Differences among member states on related issues have increased the difficulty of rule reform and affected the further improvement of WTO functions. Thus, advancing WTO reform and updating its rules has become a key issue in global trade governance.

#### **4. China's strategy in response to the China-US trade friction**

##### **4.1. Policy responses and strengthened domestic market**

The China-US trade friction has prompted China to adopt legal and policy measures, with the Blocking Statute serving as a key tool to protect national sovereignty and economic interests. Laws like the Foreign Trade Law and the Export Control Law provide a legal basis for countermeasures, including retaliatory tariffs on U.S. goods and export restrictions on critical raw materials and technologies, aiming to establish an effective trade response mechanism. Meanwhile, China has continued to improve its blocking laws in order to enhance its ability to respond to the application of extraterritorial laws. Specifically, the implementation of the blocking law is coordinated by the Ministry of Foreign Affairs and the Ministry of Commerce, and involves the determination of the extraterritorial application of laws and compliance guidelines. When enforcing the law, judicial authorities should consider national security, diplomatic strategy, and economic development, while also protecting the lawful rights of businesses to maintain a balance between market stability and national interests [8]. However, Article 13 of the Blocking Measures lays down the legal foundation for enforcement, specifying that penalties will vary depending on the severity of the circumstances. Further refining the standard for penalties and enhancing the specificity of the application of the law will help to enhance certainty in law enforcement, strengthen the protection of the legitimate rights and interests of companies, and further improve the effectiveness of the law and market stability [9]. In addition, the Blocking Measures use objective standards for clear liability determination, with subjective factors added to improve law enforcement precision. Legislation or judicial interpretation can refine the burden of proof allocation to enhance the compliance environment for companies [10]. Moreover, relying on a multi-level legislative system, the harmonization of trial standards through joint meetings between the Supreme People's Court and the State Council will help to enhance the normative nature of the application of the law [8].

China has actively used international dispute resolution mechanisms to promote peaceful trade dispute settlement and ensure relevant countries fulfill their international law obligations. And the stagnation of the WTO appeals mechanism has left many disputes unresolved, making it difficult for countries and businesses under unilateral sanctions to receive effective relief, underscoring the need for WTO reform [11]. In March 2018, the U.S. imposed tariffs on China, triggering a trade dispute. China initiated WTO dispute settlement procedures, and in 2020, a panel ruled that the U.S. measures violated international trade rules. However, the ruling lacked final legal confirmation and enforcement due to the blocked selection of Appellate Body judges. Still, it underscores the WTO's

commitment to fair trade principles [3]. Throughout the trade friction, China has consistently sought to resolve differences through consultations while implementing countermeasures. Despite repeated adjustments in the U.S. position and pressure from the U.S. side, China has always maintained a rational and pragmatic attitude to promote the resolution of issues. However, the U.S.'s repetitive positions have hindered negotiations and complicated efforts to reach a sustainable agreement [3].

In response to external uncertainties and to foster high-quality development, China introduced a new development model in 2020, which focuses on making “domestic circulation the main driver, with domestic and international circulations mutually reinforcing each other.” Its aim is to unleash domestic demand potential, enhance self-supply capabilities, and improve economic resilience, thus stabilizing the internal circulation to drive the external one. In comparison, the U.S. has an external trade dependence of only 26.4%, lower than China, reflecting developed economies' high reliance on domestic markets [3]. Promoting domestic circulation requires coordinated efforts in production, distribution, circulation, and consumption. On the production side, strengthening innovation and boosting industrial chain resilience, such as through the Science and Technology Innovation 2030 projects, is key. On the distribution side, efforts should focus on raising the income of low-income groups to promote social equity. The circulation side should optimize the market environment, cut transaction costs, and improve efficiency. On the consumption side, boosting residents' purchasing power and willingness is key to unlocking domestic demand potential [3].

#### **4.2. Economic restructuring and multilateral cooperation**

To boost innovation and industrial competitiveness, China is focusing on upgrading manufacturing and developing the digital economy. In response to the global reshaping of industrial chains, China is accelerating its focus on smart manufacturing and the industrial internet, promoting the deep integration of emerging technologies like artificial intelligence and cloud computing with the real economy to enhance economic resilience. Key technology breakthroughs drive innovation and lay a foundation for long-term growth. Besides, China is advancing regional coordinated development, strengthening the collaborative development of the Beijing-Tianjin-Hebei region, the Yangtze River Delta integration, and the Guangdong-Hong Kong-Macau Greater Bay Area to enhance economic competitiveness. Through the Western Land-Sea New Corridor, China is expanding markets to optimize trade. The *2019 Foreign Investment Law* unified foreign investment management rules, enhancing market transparency and predictability, and promoting high-level opening-up. Moreover, market access reforms and customs facilitation have boosted the business environment, making China more attractive to global investors. According to statistics, foreign enterprises' confidence in the Chinese market has steadily increased, with reforms in market access and investment protection receiving widespread recognition [3]. By accelerating regional economic cooperation, China aims to enhance foreign trade resilience and expand global markets. As a core member of the Regional Comprehensive Economic Partnership (RCEP), China has deepened regional economic cooperation through tariff concessions and rules of origin to support stable trade growth. Since RCEP came into effect, China's trade with member countries has steadily accounted for more than 30% of the total import and export volume of RMB 12.7 trillion in 2023, a year-on-year increase of 6.3%, and investment in RCEP member countries has increased by 26%, highlighting the effectiveness of regional economic integration [12]. Moreover, China has strengthened economic ties with the EU by advancing the China-EU Comprehensive Investment Agreement (CAI) to improve the business environment, enhance transparency, and ensure rule stability for sustainable investment. Through technological exchanges and trade cooperation, China's strengths in photovoltaic and wind power drives the green economy and boost global competitiveness [13]. By boosting infrastructure, trade, and investment, global industrial and supply chains can be optimized, fostering inclusiveness and sustainability in international economic cooperation. In terms of infrastructure, cooperation in cross-

border transportation, energy and communications has accelerated, and the China-Europe liner train has operated more than 1,000 trains in a single month for 27 consecutive months, hitting a new record of 1,517 trains in July 2022, reflecting its important role in the global logistics system [3]. In economic and trade cooperation, the trade and investment facilitation policy promotes the synergistic development of markets along the route and actively expands emerging markets. In 2018, China's trade with relevant countries totaled \$1.3 trillion, marking a 16.3% year-on-year increase, surpassing the overall foreign trade growth. This underscores the policy's role in boosting foreign trade. And China is optimizing its trade layout and promoting greater openness to enhance stability, predictability, and influence in global economic governance.

## **5. WTO reform and the path to win-win cooperation**

### **5.1. Directions and strategies for WTO reform**

The WTO DSM, central to the multilateral trading system, has been limited since late 2019 due to the blockage in selecting Appellate Body judges, impacting the system's stability [14]. Meanwhile, shifts in the global trade landscape, including the rise of the digital economy and green trade, have increased demands on dispute settlement, thus making reform of the mechanism essential. Reform should enhance the transparency and fairness of the selection of judges for the Appellate Body, reduce political intervention and ensure the independence of the body [15]. Also, it should optimize hearing time limits, strengthen enforcement, and improve adjudication effectiveness. To enhance dispute settlement efficiency, the WTO can strengthen mediation and arbitration mechanisms and use the MPIA as a transitional solution to maintain rule stability [16,17]. WTO rules need to be updated to address digital trade, intellectual property protection, the green economy, and other emerging areas, enhancing the adaptability and fairness of the global trading system. Transparency is a key principle of the WTO legal system. Improving the notification system and information release mechanisms will boost policy transparency and foster stable trade growth [17]. The WTO Special and Differential Treatment Mechanism provides support to developing countries, but the existing identification standard need to be further optimized to more accurately reflect the level of economic development of member countries. Through a tiered classification approach, trade policy arrangements that are more in line with actual needs should be promoted, with a view to promoting a more balanced and sustainable development of the global trading system.

### **5.2. Paths to promote win-win global cooperation**

In the face of the challenges of unilateralism and protectionism, the promotion of regional economic integration has become an important path to promote a global win-win situation. In 2020, China signed the RCEP, creating the world's largest free trade area, which took effect on January 1, 2022 [3]. The agreement enhances regional economic resilience and reduces global trade uncertainty by reducing tariffs, optimizing supply chains and promoting market integration. In addition, China had applied for membership in the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and the Digital Economy Partnership Agreement (DEPA), demonstrating its proactive stance in promoting global economic governance and building a trading system. This cooperation would streamline the global supply chain, strengthen international trade stability, and foster coordinated global economic growth. Moreover, scientific and technological innovation has become central to global competition, particularly in fields like information technology and artificial intelligence. International tech cooperation and key technology exchange boost global innovation. Collaborating in AI and renewable energy boosts tech sharing and global competitiveness. Also, it should improve the intellectual property rights protection, strengthen the coordination of international rules, and foster a fair, transparent innovation ecosystem to advance global tech progress. Global sustainability

challenges make green trade and environmental cooperation critical. Countries must boost clean energy ties, fast-track carbon neutrality, and align green finance with eco-standards. The WTO must modernize trade rules to harmonize economic growth with ecological protection for mutual benefit.

## 6. Conclusion

This paper examines WTO reform and China's response strategies amid China-US trade friction, revealing how trade imbalances, tech competition, and conflicting governance models threaten global trade stability. The plight of the WTO DSM, especially the suspension of the Appellate Body, has weakened the enforcement of multilateral trade rules and increased the uncertainty of global trade. Amid these developments, WTO reform has gained global prominence, with China actively advancing rule modernization to uphold the multilateral trading system. Besides, China has boosted economic resilience and global governance influence via domestic market strengthening, regional cooperation deepening, and business environment optimization. However, some limitations remain. The study mainly examines trade rule system reforms, with limited analysis of adaptive adjustments in emerging areas and the long-term effects of specific policy implementation. Future studies could explore WTO rule-making in digital and green trade, assessing China's influence and multilateral pathways to stronger global economic governance.

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