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# Trade Peace May Hurt Countries Left Out of U.S.-China Deal

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President Donald Trump is set to sign his phase one trade accord with China on Wednesday and the public will finally get its first chance to look beneath the hood. A key question for other nations: How will China's commitment to buy $200 billion worth of additional American goods and services impact their access to the world's biggest economies?

Analysts from Citigroup Global Markets argue that the deal may reduce Canada and Mexico's bilateral trade value with the U.S., and will likely impact small Asian, Latin American and Caribbean economies as well.

Depending on the wording and implementation, the agreement could run afoul of the World Trade Organization's principle of most-favored-nation (MFN) treatment, which prohibits governments from discriminating between their trading partners. It could also violate WTO rules that prohibit the use of quotas and other numeric restrictions on imports and exports.

If, for example, the agreement says that China will reduce the level of the retaliatory tariffs that Beijing has placed on U.S. goods back to the level of its WTO MFN commitments — then the deal would be consistent with WTO rules.

But if the accord prescribes that China must purchase set amounts of U.S. products, such a commitment would amount to managed trade and would likely violate WTO rules.

In a leaked talking points memo the Trump administration offered a one-word and unequivocal response to the question of whether the deal comports with WTO rules: Yes.

But skeptical trade experts are waiting to see exactly how the text spells it out.

"The worry would be that China does not make additional market access opening commitments overall, but the deal is to simply re-orient Chinese market share away from other WTO member countries and toward U.S. exporters," said Chad Bown, a senior fellow with the Peterson Institute for International Economics.

"I'm not sure how these agriculture purchase commitments will be consistent," said Simon Lester, an associate director at the Cato Institute, "but maybe they came up with some creative wording."

The question of legality may be a bit of moot point anyhow given that the Trump administration has crippled a key component of the WTO dispute settlement system. As of Dec. 11 the WTO's appellate body — the preeminent forum for settling worldwide trade disagreements — has lost its ability to rule on new dispute cases.

While WTO members can still bring disputes and receive an initial ruling, any party to the case could appeal that ruling into legal limbo, thereby providing the losing side with a veto. That could have a chilling effect for any nation which believes the U.S.-China deal leaves them worse off and violates core WTO tenets.

The U.S.-led paralysis of the appellate panel means any aggrieved nation may never receive justice from the WTO. That, in turn, hammers home the idea that the global economy is entering a new era where the biggest players can wield their economic might without restraint.

Welcome to the jungle.