South China Morning Post

Source:
https://www.scmp.com/economy/global-economy/article/3367981/former-wto-head-pascal-lamy-eus-china-choice-get-rebalance-or-go-protectionist

Economy / Global Economy

Open Questions | Former WTO head Pascal Lamy on the EU's China choice: get a rebalance, or go protectionist

He says Chinese authorities' lack of interest in addressing structural macroeconomic imbalance a 'huge problem' for European Union

Xiaofei Xu in Paris

Published: 6:00am, 21 Sep 2026 / Updated: 10:02am, 21 Sep 2026

Illustration: Henry Wong

Pascal Lamy served two consecutive terms as director general of the World Trade Organization from 2005 to 2013. Before that, he spent decades in various French government roles, contributing to the building of the European Union. He was chief of staff to European Commission president Jacques Delors from 1985 to 1994, and European trade commissioner from 1999 to 2004.

Here, he discusses Europe's trade tensions with China, the continent's growth potential problem and the WTO's need for stronger enforcement mechanisms.

This interview first appeared in SCMP Plus. For other interviews in the Open Questions series, click here.

In France, many have expressed doubts about the future of free trade. Former finance minister Eric Lombard said last year that free trade is dead, killed by the US and China. Do you agree?

No, free trade is not dead. And by the way, I never ever use the expression "free trade". I've been in this business for decades now, and I've never used this expression, which is for one simple reason: it is misleading. Trade is never free. It is either more or less open. Free trade is not dead, it was never born.

The question is whether the previous decades we've seen, which have consistently moved in the direction of more open trade – this being evidenced by the growth of the volume of international trade – whether this volume is still growing or not.

If you look at the numbers, which we have to do, especially if we discuss trade, trade is still growing in volume. This means that trade is more open than it used to be. But there is a catch: the growth of international trade, at least benchmarked against the growth of the economy, has slowed.

The slowdown can be attributed to many reasons. Starting with the main factor, which is the fragmentation of production systems that has led to the global supply chains that now span the world. The expansion of the supply chain, the fragmentation of production, has limits. It is efficient and productive at some stage, for some products in some conditions.

But we've probably reached a stage where the efficiency gains stemming from the multi-localisation of production systems are slowing, with decreasing yields, like any productivity curve. At some stage you reach a level where economies of scale are less important than at the beginning of the process.

Reason No 2 is that trade openness trends are now counterbalanced by trade-restricting attitudes among a number of international trade players, given the United States' position and the huge growth of China's exports and surplus. There are also growing reactions in some places to the expansion of international trade for social or environmental reasons. Its growth is slowing because of various reasons, but overall, international trade is still expanding.

So what, in your view, are the main problems facing the global trade system?

As Europeans, we have three problems in global trade today. A small one, a medium-sized one and a big one.

The small one is the US. The US has embarked on a protectionist crusade, which stems from the deep belief by US President Donald Trump that tariffs are the Swiss army knife of the 21st century economy, which is not so. The ones who pay the price for that at the end of the day are US consumers. But even if he makes a lot of noise about his attempt to de-globalise the planet, this will not happen.

Then we have the medium-sized problem, which is that the World Trade Organization, the international institutional engine for opening trade, is not working in the way it used to work.

This is mainly a problem of organisation. The fact that the US de facto left the WTO. The fact that although a new dispute-settlement system has replaced the previous one, it does not work with the US. The fact that all decisions, including on minor issues, are still taken by consensus, and that the secretariat is not allowed to exercise its potential authority based on its first-class expertise. And that third one, in my view, is the main reason.

The WTO has not been able to develop new trade-opening agreements in areas where international trade has moved a lot – digital trade for instance, which matters a lot for services – and we should always remember that international trade is goods plus services, plus the invisible part of international exchange trade today, which is about trillions of pieces of data.

Then we have a big problem, which is China, which is a problem for every country. It's a huge problem for us Europeans because we have a mega trade deficit, growing in an unsustainable way. And for the European Union, addressing this problem is a very tough task.

The main reason behind it is the macroeconomic imbalance of China, which is structural, which Chinese authorities have not addressed, do not want to address, although they've been saying for many years that Chinese growth should be rebalanced – with more domestic consumption.

China already has plans to make itself self-sufficient in food – why not in services too later?

It is not happening, and we are in a situation where industry in China produces twice as much as it consumes in industrial goods, hence the debate about overcapacity.

China now has comparative advantages in most of the supply chains in manufacturing. Not yet in agriculture, and not yet in services. But I believe China wants to get there, following a policy developed by the Chinese government, mostly since 2010.

China already has plans to make itself self-sufficient in food – why not in services too later? Because of the strategic concept that China has to become more self-reliant. In energy, in manufacturing, in technology, China has, so far, been formidably efficient in constructing self-sufficiency; other sectors will come.

This is a major systemic problem, because trade opening has always been based on the theory of comparative advantage. I do something better than you do. You do something better than I do. We have a rational interest to trade, which is, by the way, the philosophical basement of the WTO.

The WTO is built with the mission of promoting open trade because opening trade is a good way to create growth and welfare, because it is based on the efficiencies stemming from the exchange of comparative advantage, the international division of labour.

This game seems to be over with China today. China has gained comparative advantages all along the industrial production chain for various reasons. Some of which are legitimate. They have a huge market. They have a formidable education capacity, and this is something where they have built their own comparative advantage, and they have a political regime that allows a level of strategisation, coordination, multilayered intervention, which is incredibly efficient.

This has a lot to do with the political regime, and this is something, of course, that we Europeans would hesitate to emulate for a variety of reasons. China also uses its state-owned sector, its state-owned banks, its budget to heavily subsidise sectors – which is not in the spirit of a fair international division of labour – benefiting from the fact that WTO disciplines on subsidies, state support and state ownership, have remained very weak.

This is the situation we Europeans now have to face. It's not just a bit different from what it was before, where maybe we could adjust the recipes here and there with a bit more or a bit less of anti-dumping or countervailing duties. The size of the deficit is now out of reach of the normal instruments which the WTO provides to regulate trade and absorb import shocks. With China trade dynamics, we are entering a new world, a new paradigm, which opens a lot of questions about WTO disciplines.

The French government's high commission for strategy and planning has called for 30 per cent tariffs on all Chinese imports, and Paris and Berlin have expressed a desire for fast measures rather than long WTO-style investigations. Is China right that the EU is turning protectionist, and would Brussels be better off saying so openly, telling Beijing it has no choice if it wants to keep its industry?

You are absolutely right, we Europeans are reaching a moment of truth with trade and China. Either we can convince China to rebalance the system and decrease its exports or we will have to go protectionist. Let's test the willingness of China to seriously address the problem. This is the first option and in my view, the good option, provided China shows signals that it is ready to address the problem. This is Plan A. We need a Plan A, but we also need a Plan B.

Item not supported in this print-friendly version

Some in the US argue it was a mistake to let China into the WTO. You were the one who closed the EU's bilateral accession deal in Beijing in May 2000. With hindsight, was the mistake letting China in, or was it what the West failed to write into the terms? Would you sign the same text today?

Yes and no. I think letting China into the WTO was the right thing to do precisely because it brought about an exchange of comparative advantage, and China wanted to join the WTO to benefit from an insurance policy against export restrictions. China paid a high price for subscribing to this insurance in opening its economy.

China opened its economy as a developing country, roughly three times more than its developing country equivalents at the time and more than Russia 10 years later. The maximum tariff China accepted on goods was 10 per cent.

China made a big effort, which led to a big divide within the Chinese leadership: between those who said [former paramount leader] Deng Xiaoping was right, we have to open to better combine Chinese characteristics and Western characteristics, and this is the way to go to grow China more rapidly, represented by [former premier] Zhu Rongji.

And then there was another camp, more conservative within the leadership, that thought that opening trade with Western countries might make China more vulnerable. The first camp won and China opened its economy, which became very profitable for the rest of the world during the next 10 years.

There was an end to that, which roughly coincided with the aftermath of the 2008 crisis, where the Chinese government switched back to a more ideological approach. Self-sufficiency became the new strategic priority to reach total strategic autonomy in the future.

The Chinese economy was, from then on, run on a geopolitical basis, not on a geoeconomic basis. China then pushed, very successfully, to go from low-wage value addition, which was a comparative advantage 25 years ago, to where China is now, competing with the US on the frontiers of technology.

To answer your question, we were right to let China in, and we were wrong not to reinforce the WTO's rules on subsidisation and state support before China entered. The reason we did not do that – "we" being the big shots at the time: the US, EU and Japan – was we thought that we might end up restricting our ability to support our champions such as Airbus or Boeing, or Japan's programmes to foster innovation.

We were subsidising a small part of our economy, and we mistakenly remained defensive. We did not forecast how large a part of the Chinese economy would remain de facto under state control and support. Or the importance of the state-owned sector, which had actually shrunk in the first 10 years after China joined the WTO and then grew again from 2010 on.

We did one thing right, which was letting China in, which benefited everybody for quite a bit of time, but we did not properly identify the risk that China's state-owned system would drive the economy in such an efficient way, including in subsidising a strategic industry heavily at the beginning, then creating a lot of competition. The best example is what we see in electric vehicles, which were heavily subsidised at the start, and now there's cutthroat competition within China until the system stabilises with maybe a handful of surviving producers.

How do you see the current EU-China negotiations, with Brussels demanding "tangible progress" by October? Can both sides still avoid a trade war? Some argue China and the EU are already in one. Do you agree?

First of all, I don't think we should use the word "war" about trade. I'm talking to you from Ukraine, I was a naval officer in my youth. I know the meaning of the word "war", and we shouldn't use it lightly.

We have trade frictions, we have trade disputes, we have trade tensions. There are trade tensions between China and the US. There are trade tensions between the US and Canada that were triggered by Trump because he thinks Canada should become a new US state. We have trade tensions between the EU and China, which stem from the fact that we have such a huge and growing deficit with China.

The European Union today still has a trade surplus as a whole. What does this mean? This means that, overall, the EU, in what is traded today, can compete with the rest of the world. We have a trade surplus vis-a-vis the US. We have a trade surplus with many of our trade partners, except with China. If you remove €350 billion (US$407 billion) of trade deficit between the EU and China, we have a big trade surplus, which means that we are competitive with anybody on this planet except China.

Now there are reasons for that, which I can totally understand. It stems from what I describe as Chinese organisation: they've been extremely good at gaining a comparative advantage all along the supply chain, including, for instance, in critical materials, which is extremely important for electrification and the economy.

Of course, China did not do it for the pleasure of doing it. China built a comparative advantage in critical materials because China wanted to electrify, and the reason China wanted to electrify was that it wanted to be less dependent on oil or coal or gas imports.

> **We Europeans have to try to convince China that it is in their interest, as it is in our interest, to reduce our trade deficit massively**

It's not because China suddenly became a believer in the necessity to reduce emissions – although I'm happy that China is doing this. China built the comparative advantage in rare earths to become less dependent on fossil fuel imports. They built this control, which now gives them a monopoly that they can weaponise.

We Europeans have to try to convince China that it is in their interest, as it is in our interest, to reduce our trade deficit massively, not just by €10 billion or €20 billion. We have a €350 billion trade deficit, and this cannot be addressed by a little bit of this or a little bit of that. The problem is the magnitude of the problem.

Either we can convince China to address this problem, which will need a lot of unilateral market power exercised by the Chinese side to export less, or we will have to look for other options. I hope we do not have to do this. I interpret the

Sefcovic mission [aimed at rebalancing trade] and the time between now and the October deadline as a test of whether China is serious about addressing this or not.

As usual, the EU gave priority to negotiation, consultation, discussion. We are not the US, and nobody wants to play Trump on the EU side, we are not brutal. We try to understand problems. We try to address this peacefully, respectfully and through negotiation. But if that does not work, we have to look at other options.

Europe says it wants to be neither dependent on the US nor overwhelmed by China. Is a third position actually available, or does reducing exposure to one side mean aligning with the other?

Solving this issue will not, by itself, solve Europe's No 1 problem, which is growth. The EU's growth potential is half of that of the US, one-third that of China and one-quarter that of India. This is a worrying situation, and one we will have to work hard on to improve our competitiveness. But becoming more competitive will not solve our China trade problem, given its magnitude and the threat it represents to the survival of some of our production systems.

How did we get here, to this level of trade imbalance? Is that a story about Chinese competitiveness or industrial policy?

It is overall competitiveness, all along the supply chain, which leads to this. If you have a competitive advantage all along the supply chain, there is no more fair trade. You are absolutely right, this is the result of Chinese competitiveness.

Chinese competitiveness has various sources, which I mentioned: the size of the market, the organisation of the state and its capacity to subsidise efficiently. It's not just subsidising, because you can subsidise inefficiently too. The Chinese system has learned to use subsidising efficiently, giving the industrial policy a coherent logic: what strategic priorities, what the state does, in which sector, what the regions do and what the municipalities do. There is a lot of competition within. It's a formidable mix of non-competition, which is the state, and competition, which is a part of the economy.

What would China have to do to prove that it is a defender of multilateralism and free trade?

Beef up domestic consumption. Stop pushing, pushing and pushing for increasing manufacturing, which is way beyond the consumption capacity of Chinese consumers. Chinese households have a saving rate that is way too high, coming from the fact that they want to hedge against old age, children's education spending, pensions and so on, so China also needs to create somewhat of a welfare state.

Secondly, import more, export and subsidise less. Or in the case of subsidies, renegotiating the WTO rules on subsidies – what we in the EU call "state aids" – to level the playing field, which is now heavily unbalanced in the subsidisation capacity between China and Europe. And convince China to invest more in Europe in areas where tech transfers and ownership arrangements are doable, which was China's position 30 years ago. Boosting Chinese investment in Europe is, in my view, part of the solution.
