

China and Global Trade Order Post Ukraine War:

From Value Chains to Values Chains

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China has long been hailed as the biggest success story in economic development through integration into global value chains, especially since its accession to the WTO 20 years ago. However, it is much less well-known how China refitted the global value chain narrative to influence economic analysis and trade governance. At the same time, the value chains analysis also backfired when the U.S. tried to cut China out of its supply chains and pushed for decoupling with China, while China itself started to abuse its role in value chains for political gains. The process was further accelerated by the Ukraine war, which prompted efforts by the U.S. and its allies to build supply chains based on values rather than value, which will have a profound impact on China and the global trade order.

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INTRODUCTION

World trade has grown by leaps and bounds in recent decades, not only in terms of volume and value, but also in terms of its complexity and means, as facilitated by rapid technological advances. Yet, international trade regulation has largely remained the same, as if trade is a monolithic activity immune from the tectonic shifts in the economy and technology. It was only with the advent of research on global value chains (GVC) at the turn of the century that people started to recognize that the production process is as much a global collaborative endeavor as trade. China is the biggest success story in this regard, as it not only managed to integrate itself fully into global value chains despite being excluded for so long, but also emerged as the second largest economy in the world that is a key part of the value chains on almost all products. China was also one of the first few countries to realize the potential policy implications of GVC research and has actively engaged with and promoted GVC research in efforts to shift the narratives on trade imbalances and a host of other trade policy issues. At the same time, the growing popularity of GVC research also made more countries become aware of the crucial roles China played in their supply chains, and when such roles were abused by China to achieve its foreign policy goals, such countries started to explore alternatives. These initiatives started out with the restrictive rules of origin that the Obama Administration placed in the Trans-Pacific Partnership (TPP) to nudge firms away from China through market mechanisms and culminated with the more blunt “decoupling” measures by the Trump Administration to force firms out of China by imposing heavy trade war tariffs. In response, China stepped up efforts to maintain and strengthen its position in the regional and global value chains through unilateral dismantling of its trade and investment barriers in its free trade zones, bilateral and regional initiatives such as the conclusion of new free trade agreements and upgrading of existing ones, establishment of the Belt and Road Initiative, and emphasis on multilateralism at the World Trade Organization (WTO) and other global institutions.

With the war raging in Ukraine, however, global value chains started to shatter as the West realized that it was no longer safe to continue relying on cheap energy imports from Russia despite being economically convenient. Similarly, China, by refusing to condemn Russia or join the sanctions, has also turned itself into a political liability and security risk. Squeezed between China's tightening regulatory environment and peculiar COVID-zero policy, the advantages of China-centered value chains started to evaporate. The shift from supply chains based on best value to those forged by common values will have profound impacts on the future of the global trade order, and this article provides the first hints on things to come.

I. TRADING VALUES FOR VALUE: CHINA'S INTEGRATION INTO GLOBAL VALUE CHAINS

For the first 30 years since the establishment of the People's Republic, China largely faithfully followed the Communist economy model. Internally, this means a wholly state-owned economy with no private or foreign firms. Externally, China conducted trade mainly with Socialist countries, and when its relationship with the Soviet Union soured in 1960, shifted to developing countries in the third world.¹

Such dogmatic adherence to Communism brought the Chinese economy to the brink of bankruptcy when Deng Xiaoping took power in 1978. Trying to find a way out, he decided to adopt the opening-up and economic reform policy after surveying the successful experiences of neighboring countries. The policy essentially involved plugging China into the global value chain by importing the parts and components, assembling them in China, and selling the finished products abroad, making full use of China's abundant cheap labor.²

The biggest obstacle to China's efforts to join the GVC was political, where the prevailing Communist ideology regarded foreign investment as exploitation, trade with foreign countries as a minor supplement to its autarkic planned economy,³ and the General Agreement on Tariffs and Trade (GATT) as "a tool for the imperialists, especially American imperialists to expand foreign trade and grab world markets."⁴ To overcome the ideological opposition, Deng invented the concept of the "primary stage of Socialism,"⁵ which explained the need for China to develop its economy through Capitalism in all but name, a practice later popularized with Deng's famous saying, "no matter whether it's a white cat or black cat, so long as it catches the mice, then it is a good cat." The ideological acrobatics also came in

1. Shi Guangsheng (石广生), *Zhongguo Duiwai Jingji Maoyi de Fazhan Licheng he Weida Chengjiu* (中国对外经济贸易的发展历程和伟大成就) [*The Course of Development and Great Achievements of China's Foreign Economic and Trade*], MINISTRY OF COM. (MOFCOM) (Jul. 17, 2002), <http://www.mofcom.gov.cn/aarticle/bg/200207/20020700032817.html> (China).

2. Zhang Xiaoyu (张小瑜), *Zhongguo Duiwai Maoyi 60 Nian: Biange yu Chengjiu* (中国对外贸易 60 年: 变革与成就) [*69 Years of China's Foreign Trade: Reform and Achievement*], Beijing Zhoubao (北京周报) [BEIJING REV.] (Aug. 27, 2009), http://www.beijingreview.com.cn/jjlw/txt/2009-08/27/content_213784.htm.

3. DENG MIN, *XIN ZHONGGUO DUIWAI MAOYI ZHIDU BIANQIAN* (新中国对外贸易制度变迁) [THE EVOLUTION OF THE PEOPLE'S REPUBLIC OF CHINA'S INTERNATIONAL TRADE SYSTEM] 124–125 (2020).

4. Ministry of Foreign Trade & Ministry of Foreign Aff., *Guanyu "Guanshui ji Maoyi Zongxieding" Wenti de Qingshi* (关于"关税及贸易总协定"问题的请示) [*Report on the "GATT" Issue*], (1971) (China), *quoted in* ZHONGGUO JIARU SHIJIE MAOYI ZUZHI ZHISHI DUBEN (SI): ZHONGGUO JIARU SHIJIE MAOYI ZUZHI TANPAN LICHENG 19-21 (中国加入世界贸易组织知识读本(四): 中国加入世界贸易组织谈判历程) [READER ON CHINA'S ACCESSION TO THE WORLD TRADE ORGANIZATION (FOUR): NEGOTIATION HISTORY OF CHINA'S ACCESSION TO THE WORLD TRADE ORGANIZATION] (Shi Guangsheng Bian) (石广生编) [Shi Guangsheng ed., 2011].

5. First formally raised in *Guanyu Jianguo Yilai Dang de Ruogan Lishi Wenti de Jueyi* (关于建国以来党的若干历史问题的决议) [Resolution on Several Historical Issues of the Party Since the Founding of the People's Republic of China], further elaborated at the Party Congress report for the 13th Party Congress, and confirmed by Deng personally in his talk with Leonilde Jotti and Renato Zangheri, leaders of the Italian Communist Party. *See* 3 Xiaoping Deng, *Selected Works of Deng Xiaoping* (1982-1992) (1994), <http://dangshi.people.com.cn/n1/2017/1206/c85037-29688888.html>.

handy when China applied to resume its contracting party status in the GATT, where China rejected the many onerous demands such as quantitative import commitments made to former Socialist countries by claiming that it is in the process of building a “Socialist market economy.”⁶ Moreover, labeling itself as a “market economy” also provided the interface to join global value chains.

Yet, as China soon discovered, to integrate itself into global value chains, it must first learn to navigate the complicated world of trade rules. The best example here is the textiles and clothing industry, which was a minefield with its arcane quota regime and complex rules of origin. When China first started out in the textile business in the late 1970s, it did not have access to the quotas. This problem was later solved by Hong Kong firms’ relocation to the mainland in the 1980s, as land and labor prices both started to rise in Hong Kong. Such an arrangement also took advantage of the loopholes in the rules of origin regime. For example, the U.S. has long required textile products produced in one country to undergo “substantial transformation” in another country to enter the U.S. market under the second country’s export quota.⁷ Prior to 1984, the “substantial transformation” requirement was deemed satisfied so long as the garment was sewn together in Hong Kong.⁸ Taking advantage of this rule, joint-venture arrangements were established between Hong Kong companies and the China National Textile Import and Export Corp., so that sweaters and other knitwear were first knitted in China and then shipped to Hong Kong for assembly, with the finished garments exported to the U.S. under the “made in Hong Kong” label.⁹ In response to complainants from U.S. textiles and clothing firms, however, the U.S. adopted a new regulation in August 1984 and excluded from “substantial transformation” clothes or textiles that “merely under[went] . . . joining together by sewing, looping, linking or other means of attaching otherwise completed component parts; cutting or otherwise separating of articles from material which has been previously marked with cutting lines . . .; or processing such as dyeing, printing, showerproofing, superwashing, or other finishing operations.”¹⁰ Instead, the place of origin would be designated as the country where the fabric originated, i.e., China.¹¹ In response to the new rule, Hong Kong firms changed their division of labor with their Chinese factories so that the fabrics were cut in Hong Kong with the state-of-the-art laser-cutting machines, while the final sewing was done on the mainland. In 1996, however, the U.S. changed the

6. See Henry S. Gao, *China’s Participation in the WTO: A Lawyer’s Perspective*, 11 SING. Y.B. INT’L L., 41–74 (2007), <https://ssrn.com/abstract=958877>; see also Henry Gao, *China’s Changing Perspective on the WTO: From Aspiration, Assimilation to Alienation*, 116 WORLD TRADE REV., 342, 343 (2022).

7. U.S. INT’L TRADE COMM’N, *New country-of-origin regulations for U.S. apparel imports threaten China’s role in Hong Kong’s knitwear industry*, in INT’L ECON. REV., 4, 4 (Oct. 1984).

8. Lee A. Daniels, *New Textile Import Rule Protested*, N.Y. TIMES (Aug. 20, 1984), <https://www.nytimes.com/1984/08/20/business/new-textile-import-rule-protested.html>.

9. U.S. INT’L TRADE COMM’N, *supra* note 7, at 4.

10. U.S. INT’L TRADE COMM’N, USITC PUB. 1662, 41ST QUARTERLY REPORT TO THE CONGRESS AND THE TRADE POLICY COMMITTEE ON TRADE BETWEEN THE UNITED STATES AND THE NONMARKET ECONOMY COUNTRIES DURING 1984 (1985); see also Patrick D. Gill, *The Implementation of the Country of Origin Regulations: A Case Study*, 10 B.C. INT’L & COMP. L. REV. 275 (1987).

11. Daniels, *supra* note 8.

rules again by reverting back to the “Assemble” origin criterion, where the place for final assembly was designated as the place of origin.¹² This accelerated the shift of the entire Hong Kong textile industry to China as Hong Kong was no longer a suitable place for textile manufacturing due to its high costs. With the help of Hong Kong, China rapidly grew its textile and clothing sector and became the largest exporter in the world in 1994, a record it has kept ever since.¹³ By 2017, China further emerged as the largest supply hub in the global textiles sector.¹⁴ In addition to responding quickly to external changes, China has also proactively used its laws and regulations to support the development of GVCs,¹⁵ and emerged as one of the key nodes in the GVCs of many key products

II. DEFENDING VALUE CHAINS: HOW CHINA USED GVC RESEARCH TO RESHAPE GLOBAL TRADE POLICY DEBATE

Riding on the wave of global GVC expansion, which coincided with its WTO accession, China not only became more integrated into GVCs but also managed to move up the value chain.¹⁶ However, when the global financial crisis hit in 2008, the GVC expansion hit a snag and China’s ambitions also took a hit. The year 2008 was supposed to be a year of triumph for China, as the Beijing Olympics marked China’s coming of age in the world. It also marked a significant milestone for GVCs, as the expiration of the special textile safeguard in China’s accession package¹⁷ at the end of the year removed a major obstacle to China’s rise as the dominant player in textile GVCs. Unfortunately for China, the year 2008 was also a year of a U.S. Presidential Election, and Barack Obama, in the final stretch of his campaign, accused China of manipulating its currency to gain trade surplus and promised close monitoring of Chinese textile imports and swift actions if elected.¹⁸

In response to the U.S. criticism, China’s Vice Minister of Commerce penned an op-ed in the *Wall Street Journal* in early 2010 to argue that U.S.-China economic relations were largely balanced if services and investment were also taken into account, the exchange rate had little correlation to trade imbalances, and China had always sought to balance its trade.¹⁹ However, these arguments largely fell on deaf

12. Yan Jinglin, *A Study on U.S.-China Textile Trade Frictions: Economic Reasons and Policy Implications*, 4 INT’L ECON. SCREENING SERIES 25, 27 (1999).

13. Yongzheng Yang & Chuanshui Zhong, *China’s Textile and Clothing Exports in a Changing World Economy*, 36 DEVELOPING ECON. 3, 6

14. Xin Li, Bo Meng & Zhi Wang, *Recent Patterns of Global Production and GVC Participation*, in GLOBAL VALUE CHAIN DEVELOPMENT REPORT 9, 28 (2019).

15. This is well documented in Henry Gao & Gregory Shaffer, *The Role of Law in Chinese Value Chains*, 19 J. CHINESE ECON. BUS. STUD. 197 (2021).

16. H. L. Kee & H. Tang, *Domestic Value Added in Exports: Theory and Firm Evidence from China*, 106 AM. ECON. REV. 1402 (2016).

17. Working Party on the Accession of China, *Report of the Working Party on the Accession of China*, WT/ACC/CHN/49, at ¶ 242 (Oct. 1, 2001).

18. Sky Canaves, *China Trade Issues Emerge Late in the U.S. Election Cycle*, WALL ST. J. (Oct. 31, 2008), <https://www.wsj.com/articles/BL-CJB-587>.

19. Zhong Shan, *U.S.-China Trade Is Win-Win Game*, WALL ST. J. (Mar. 26, 2010), <https://www.wsj.com/articles/SB10001424052748703312504575142202930482866>.

ears, and China tried to find fresh arguments to support its position. This was when GVC research came into its view.

GVC research was first started in 1999 by Gary Gereffi when he published his seminal work on apparel global commodity chains.²⁰ In 2008, then WTO Chief Statistician Hubert Escaith²¹ presented a paper at the 12th Symposium of the French National Account Association, where he called for measuring international trade along value chains instead of simply imports and exports.²² Using the iPod as the example, he pointed out that the existing method of trade statistics would put the Chinese export value at about \$150, while in fact, “the value added attributable to processing in China was only \$4, with the remaining value added coming from the United States, Japan, and other countries”.²³ When the WTO released the trade figures in 2009, it also called Members “to measure trade transactions on the basis of the value added at each stage of the production process.”²⁴ In May 2009, the WTO, along with the Organization for Economic Cooperation and Development (OECD) and the European Commission, launched the World Input-Output Database (WIOD) project.²⁵ In his speech at the Paris School of Economics on April 12, 2010, then WTO Director-General Pascal Lamy cited the example of the iPod to argue that it “make sense for us to start measuring trade in value added rather than on gross value as is the case today.”²⁶ According to Lamy, “[u]sing conventional trade statistics would overestimate the U.S. bilateral deficit vis-à-vis China by around 30% as compared to measuring in value added content. The figures would reach more than 50% when the activities of export processing zones are fully taken into account.”²⁷ Later that year, the WTO published two staff working papers to emphasize the important roles of international supply chains²⁸ and trade in value added.²⁹ In February 2011, at the Global Forum on Trade Statistics titled

20. Gary Gereffi, *International Trade and Industrial Upgrading in the Apparel Commodity Chain*, 48 J. INT'L ECON., 37 (1999).

21. CURRICULUM VITAE HUBERT ESCAITH, <https://univ-amu.academia.edu/HubertEscaith/CurriculumVitae> (last visited Feb. 2, 2024).

22. Hubert Escaith, *Measuring Trade in Value Added in the New Industrial Economy: Statistical Implications* (June 6, 2008), <https://ssrn.com/abstract=1189162>.

23. *Id.* at ii.

24. Press Release, World Trade Organization, WTO Sees 9% Global Trade Decline in 2009 as Recession Strikes (Mar. 23, 2009), https://www.wto.org/english/news_e/pres09_e/pr554_e.htm.

25. Hubert Escaith & Marcel Timmer, *Global Value Chains, Trade, Jobs, and Environment: The New WIOD Database*, VOX EU (May 13, 2012), <https://voxeu.org/article/new-world-input-output-database>.

26. Pascal Lamy, Director General, World Trade Organization, Comparative advantage is dead? Not at all, Lamy tells Paris economists, (Apr. 12, 2010) (transcript available at https://www.wto.org/english/news_e/sppl_e/sppl152_e.htm).

27. *Id.*

28. Hubert Escaith, Nannette Lindenberg, & Sébastien Miroudot, *International Supply Chains and Trade Elasticity in Times of Global Crisis* (World Trade Organization Economic Research and Statistics Division, Staff Working Paper No. ERSD-2010-08, 2010), https://www.wto.org/english/res_e/reser_e/ersd201008_e.pdf.

29. Andreas Maurer & Christophe Degain, *Globalization and trade flows: what you see is not what you get!* (World Trade Organization Economic Research and Statistics Division, Staff Working Paper No. ERSD-2010-12, 2010), https://www.wto.org/english/res_e/reser_e/ersd201012_e.pdf.

“Measuring Global Trade—Do We Have the Right Numbers?” the WTO co-hosted with the UN and the Statistical Office of the European Communities (Eurostat), WTO Deputy Director-General Alejandro Jara stressed that products were not made in individual countries, but were “made in the world.”³⁰ On June 6, 2011, Lamy announced the WTO’s “Made in the World” initiative at the launch³¹ of the WTO and Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO) joint publication “Trade Patterns and Global Value Chains in East Asia”.³² Using the iPhone’s production chain as an example, the report noted that the GVC approach could reduce the U.S. trade deficit with China by forty-two to fifty-three percent between 2005 and 2008.³³ This example was also picked up by the presentation³⁴ of then Chief Economist of the U.S. International Trade Commission, Robert Koopman, who later assumed the position of WTO Chief Economist.

Seizing the perfect opportunity, veteran Chinese trade official Li Zhongzhou³⁵ published two op-eds in the 2011 volume of the *China WTO Tribune*, a monthly journal published by the Ministry of Commerce (MOFCOM) and edited by Zhang Xiangchen, then deputy representative of China’s WTO Mission. The two articles³⁶ referred respectively to the Global Forum on Trade Statistics and the WTO-IDE-JETRO joint report and called on China to “actively participate in the reform of international trade statistics system, conduct studies on GVCs, so as to convince the world that the development of China’s manufacturing sector is a win-win contribution to the world.”³⁷ Then Vice Premier Wang Qishan also requested MOFCOM to study GVC research and prepare accordingly.³⁸ From 2010,

30. Alejandro Jara, Deputy Director-General, World Trade Organization, Opening Statement, (transcript available at https://www.wto.org/english/res_e/statis_e/forum_feb11_e/jara_e.pdf).

31. Pascal Lamy, Director General, World Trade Organization, Keynote Address: Lamy suggests “trade in value-added” as a better measurement of world trade (June 6, 2011) (transcript available at https://www.wto.org/english/news_e/news11_e/miwi_06jun11_e.htm).

32. WORLD TRADE ORG. & INST. OF DEVELOPING ECON., TRADE PATTERNS AND GLOBAL VALUE CHAINS IN EAST ASIA: FROM TRADE IN GOODS TO TRADE IN TASKS (2011), https://www.wto.org/english/res_e/booksp_e/stat_tradepat_globalchains_e.pdf.

33. *Id.* at 104, 105.

34. Robert Koopman, Chief Economist, U.S. Int’l Trade Comm’n, Trade Patterns and Global Value Chains in East Asia: From Trade in Goods to Trade in Tasks (June 6, 2011) (presentation available at https://www.wto.org/english/news_e/news11_e/miwi_06june11_koopman_e.ppt).

35. Li was the first division chief for GATT Affairs at MOFERT who was responsible for China’s GATT bid in the 1980s.

36. The two op-eds are: Li Zhongzhou (李仲周), Guoji Maoyi Zhidu Gaige Shizaibixing (国际贸易统计制度改革势在必行) [The Reform of International Trade Statistics System is Imperative], *WTO Jingji Daokan* (WTO 经济导刊) [China WTO Trib.], no.3, 2011, at 94; Li Zhongzhou (李仲周), Zhongguo Xuyao Naixin He Jianren Huiying Xifang De Duoyibing (中国需要耐心和坚韧回应西方的多疑病) [China Needs Patience and Persistence in Responding to Western Paranoia], *WTO Jingji Daokan* (WTO 经济导刊) [China WTO Trib.], no.3, 2001, at 95.

37. Li, The Reform of International Trade Statistics System is Imperative, *supra* note 36, at 94.

38. Jingji Jinrong Yanjiubu (经济金融研究部) [Chinese Academy of Sciences], “Quanqiu Jiazhilian Yanjiu” Qude Jinzhan (全球价值链研究”取得进展) [Progress made in “Global Value Chain Research”], Guojia Shuxue yu Jiaochakexue Zhongxin (国家数学与交叉科学中心) [NAT’L CENTER FOR MATHEMATICS & INTERDISC. SCI. (NCMIS)] (Nov. 5, 2011), http://www.ncmis.cas.cn/kjyz/kycg/201301/t20130107_104478.html.

MOFCOM started to coordinate GVC research, both with research institutes in China and with the relevant international organizations.³⁹ In October 2011, MOFCOM launched an emergency research project on the literature review of existing GVC research.⁴⁰ In May 2012, MOFCOM, along with the General Administration of Customs, the National Bureau of Statistics, and the State Administration of Foreign Exchange, jointly launched a key research project on “Global Value Chains and International Trade Interests.”⁴¹ In 2014, the research team issued the report on “Global Value Chains and China Value Added Accounting,” which further confirms the potential of GVC accounting in reducing apparent trade surpluses.⁴²

Encouraged by the report, China also started to promote GVC research at the international level. At the Asian-Pacific Economic Cooperation (APEC) trade ministers’ meeting held in China in 2014, China proposed two initiatives: APEC Strategic Blueprint for Promoting Global Value Chain Development and Cooperation and Strategic Framework on Measurement of APEC TiVA under GVCs.⁴³ Both were formally endorsed by the trade ministers,⁴⁴ and the APEC leaders meeting held later that year.⁴⁵ As the host for the 2016 G20 summit, China also proposed the initiative for promoting inclusive and coordinated global value chains,⁴⁶ which was

39. Shen Danyang (沈丹阳) & Peng Jing (彭敬), *Quanqiu Jiazhilian Fazhan Xinqūshi Xia Tuijin Zhongguo Quanqiu Jiazhilian Yanjiu de Ruogan Sikao* (全球价值链发展新趋势下推进中国全球价值链研究的若干思考) [Thoughts about Promoting Research on Global Value Chain in China under the New Trend of Global Value Chain Development], *Quanqiuhua* (全球化) [Globalization], no.12, 2014, at 28, 31.

40. *Id.*

41. *Id.*

42. *Zhongguo Quanqiu Jiazhilian Ketizu* (中国全球价值链课题组) [CHINA GLOB. VALUE CHAIN RSCH. GRP.], *Quanqiu Jiazhilian Yü Zhongguo Maoyi Zengjiazhi Hesuan Yanjiubaogao* (全球价值链与中国贸易增加值核算研究报告) [Research Report on Global Value Chains and the Calculation of China’s Trade Value Added] (2014), <http://images.mofcom.gov.cn/www/201412/20141223154610238.pdf>.

43. CTI CHAIR, CHAIR’S SUMMARY RECORD OF COMMITTEE ON TRADE AND INVESTMENT MEETING IN QINGDAO (2014); *See also* Shangwubu xinwen bangongshi (商务部新闻办公室) [MOFCOM News], Shangwubu zhaokai APEC quanqiu jiazhilian cujin yatai jingjiti hezuo yu fazhan meiti chui Fenghui (商务部召开 APEC 全球价值链促进亚太经济体合作与发展媒体吹风会) [MOFCOM Held Press Conference on APEC Promoting Global Value Chain Development and Cooperation in Asia Pacific], *Zhonghua renmin gongheguo shangwubu* (中华人民共和国商务部) [Ministry of Commerce PRC] (Nov. 8, 2014, 8:27 AM), <http://www.mofcom.gov.cn/article/ae/ztfbh/201411/20141100789558.shtml> (China).

44. *2014 Meeting of APEC Ministers Responsible for Trade*, ASIA-PACIFIC ECONOMIC COOPERATION, paras. 18 & 20 (2014), https://www.apec.org/meeting-papers/sectoral-ministerial-meetings/trade/2014_trade.

45. SUMMARY REPORT ON APEC MEASUREMENT OF APEC TiVA UNDER GVCs (2018), <https://www.apec.org/docs/default-source/publications/2018/11/2018-cti-report-to-ministers/toc/appendix-4—summary-report-on-apec-measurement-of-apec-tiva-under-gvcs.pdf?sfvrsn=e9eae355>.

46. Yituo Quanqiu Jiazhilian Zhuli Maoyiqiangguo Zhuanbian – Quanqiu Jiazhilian Yuesheng Gongcheng (依托全球价值链助力贸易强国转变—全球价值链跃升工程) [*Using Global Value Chain to Promote the Transformation to Trading Power - The Global Value Chain Leap Project*], *Zhonghua renmin gongheguo shangwubu* (中华人民共和国商务部) [Ministry of Commerce PRC] (Oct. 17, 2017), http://www.mofcom.gov.cn/article/zt_dlfj19/fbdt/201710/20171002656589.shtml (China).

later adopted by the G20 trade ministers' statement.⁴⁷ In December 2016, seven ministries, including MOFCOM, also issued the "Guiding Opinions on Strengthening International Cooperation and Improving China's Industrial Global Value Chain Position", which outlined plans to work with the WTO, OECD, and other relevant international organizations on GVC work.⁴⁸

Lest anyone mistakes the Chinese initiative as mere academic research, senior Chinese officials explicitly pointed out the policy relevance of GVC research. In particular, former Minister of Commerce Chen Deming identified several potential policy implications in his speeches and articles: providing a fresh perspective on the U.S.-China trade imbalance; promoting better allocation of gains from trade; better integrating developing countries into the global value chain;⁴⁹ improving global investment governance; and re-calibrating the measurement of carbon footprints by allocating carbon emissions to countries where the values are created or consumed.⁵⁰ In addition, as some scholars have suggested, GVC research could also lead to revolutions in other areas of trade governance, such as new approaches to market access negotiations⁵¹ and disciplines on subsidies.⁵²

Paradoxically, China's apparent success in drumming up GVC research at the international level also highlighted the potential vulnerabilities of China-based supply chains that led to unintended consequences. In particular, China's blockage of rare earth exports to Japan in 2010 in the midst of a maritime dispute illustrates the risks of China abusing its supply chain position for political purposes.⁵³ In response, the U.S. and its allies brought two successive WTO cases against China, which they narrowly won by relying on a technicality in China's accession protocol, preventing the invocation of the GATT general exceptions clause.⁵⁴ At the same time, the U.S.

47. *G20 Trade Ministers Meeting Statement*, ¶¶ 21-22 (July 2016), https://www.wto.org/english/news_e/news16_e/dgra_09jul16_e.pdf.

48. STATE COUNCIL INFO. OFF., Guanyu Jiaqiang Guojihezuo Tigao Woguo Chanye Quanjie Jiazhilian Diwei De Zhidaoyijian (关于加强国际合作提高我国产业全球价值链地位的指导意见) [*Guiding Opinions on Strengthening International Cooperation and Improving China's Industrial Global Value Chain Position*] (Dec. 6, 2016), <http://www.scio.gov.cn/xwfbh/xwfbh/wqfbh/35861/36637/xgzc36643/Document/1551147/1551147.htm> (China).

49. Chen Deming (陈德铭), *Zhongguo Shenke Yingxiang Quanjie Jiazhilian 40 Nian* (中国深刻影响全球价值链 40 年) [*China's Deep Influence on Global Value Chains in the Past 40 Years*], CHINA ASS'N INT'L ECON. COOP. (Feb. 27, 2018), www.cafiec.com.cn/article/zjsj/201802/20180202715537.shtml.

50. Chen Deming (陈德铭), Hou Yiqing Shiqi de Quanjie Jiazhilian he Shuzi Jingji Zhanwang (后疫情时期的全球价值链和数字经济展望) [*Global Value Chains and Digital Economy Outlook in the Post-Pandemic Era*], CTR. FOR CHINA & GLOBALIZATION (Jan. 14, 2022), www.ccg.org.cn/archives/67711.

51. BERNARD M. HOEKMAN, *SUPPLY CHAINS, MEGA-REGIONALS AND MULTILATERALISM: A ROAD MAP FOR THE WTO*, (2014).

52. Bernard Hoekman, *Subsidies and Spillovers in a Value Chain World: New Rules Required?* (Robert Schuman Ctr. for Advanced Stud., Research Paper No. RSCAS PP 2015/03, 2015), <https://ssrn.com/abstract=2637264>.

53. James T. Areddy et al., *China Denies Halting Rare-Earth Exports to Japan*, WALL ST. J. (Sept. 23, 2010), <https://www.wsj.com/articles/SB10001424052748704062804575509640345070222>.

54. Panel Reports, *China – Measures Related to the Exportation of Various Raw Materials*, WTO Docs. WT/DS394/R/Add.1, WT/DS394/R/Corr.1, WT/DS395/R/Add.1, WT/DS395/R/Corr.1,

also started shifting supply chains away from China by negotiating new free trade agreements such as the TPP. The tool of choice here was rules of origin, which the U.S. has been wielding skilfully for decades, such as its successful efforts in reshoring the automobile industry supply chain closer to home through the North American Free Trade Agreement (NAFTA) and United States-Mexico-Canada Agreement (USMCA) rules of origin.⁵⁵ This success formula was also replicated in the TPP, where mechanisms such as the yarn-forwarding rule ensured that the supply chain stayed within the friends of the U.S.⁵⁶ Donald Trump was even more blunt when he came into office, where he resorted to punitive tariffs and even tried to “order” American companies to move out of China at the height of the trade war,⁵⁷ while cutting off Chinese firms such as Huawei from both U.S. hardware and software.⁵⁸

In response, China took the following initiatives to protect and upgrade its supply chains:

the first is the Belt and Road Initiative (BRI). Since its launch in 2013, the BRI has quickly become the centerpiece in China’s international trade policy.⁵⁹ The BRI helps to secure raw materials and resources as well as markets for Chinese products, both essential to minimize disruptions to China’s supply chains amidst difficulties with traditional export markets. In addition, it also provides China a way to move up the value chain, with China now at the top.

Second is the further enhancement of its Free Trade Agreements (FTA) strategy. Since its first FTA signed with Association of Southeast Asian Nations (ASEAN) in 2002, China has been on an FTA shopping spree. Most of its earlier FTAs, however, were mainly political tools that were shallow on trade commitments.⁶⁰ This started to change in 2015, when the State Council issued “*Several Opinions on the Acceleration of Implementation of FTA Strategy*.”⁶¹ The document unveiled

WT/DS398/R/Add.1, WT/DS/398/R/Corr.1 (adopted Jul. 5, 2011), *as modified in* Appellate Body Reports, *China – Measures Related to the Exportation of Various Raw Materials*, WTO Docs. WT/DS394/AB/R/, WT/DS395/AB/R/, WT/DS398/AB/R (adopted Jan. 30, 2012); Panel Reports, *China – Measures Related to the Exportation of Rare Earths, Tungsten, and Molybdenum*, WTO Docs. WT/DS431/R, WT/DS431/RAdd.1, WT/DS432/R, WT/DS432/Add.1, WT/DS433/R, WT/DS433/Add.1 (adopted Mar. 26, 2014), *upheld by* Appellate Body Reports, WTO Docs. WT/DS431/AB/R, WT/DS432/AB/R, WT/DS433/AB/R (adopted Aug. 7, 2014).

55. See BILL CANIS ET AL., *NAFTA AND MOTOR VEHICLE TRADE* (2017), <https://sgp.fas.org/crs/row/R44907.pdf>.

56. See MICHAELA D. PLATZER, *U.S. TEXTILE MANUFACTURING AND THE TRANS-PACIFIC PARTNERSHIP NEGOTIATIONS* (2014), <https://sgp.fas.org/crs/row/R42772.pdf>.

57. Heather Somerville & Tripp Mickle, *U.S. Companies on China: Breaking Up Is Hard*, WALL ST. J. (Aug. 25, 2019), <https://www.wsj.com/articles/u-s-companies-greet-latest-trump-tweets-with-concern-and-confusion-11566764609>.

58. Kate O’Keeffe et al., *Trump Steps Up Assault on China’s Huawei*, WALL ST. J. (May 15, 2019), <https://www.wsj.com/articles/trump-telecom-ban-takes-aim-at-china-huawei-11557953363>.

59. Gregory Shaffer & Henry Gao, *A New Chinese Economic Order?*, 23 J. INT’L ECON. L. 607, 614–20 (2020).

60. Henry Gao, *China’s Strategy for Free Trade Agreements: Political Battle in the Name of Trade*, in *EAST ASIAN ECONOMIC INTEGRATION: LAW, TRADE AND FINANCE* 104, 104–20 (Ross Buckley, Richard Hu & Douglas Arner eds., 2011).

61. Guowuyuan Guanyu Jiakuai Shishi Ziyou Maoyiqu Zhanlue de Ruogan Yijian, Guofa [2015]

ambitious plans to expand market access for services and investment, and forge new rules on intellectual property rights, environment protection, e-commerce, competition and government procurement. In addition, it called for “the promotion of the construction of more efficient global and regional value chains” through “appropriate designs of rules of origin.” This is exactly how it came out in the Regional Comprehensive Economic Partnership (RCEP), where the general regional value content was set at forty percent with much less complicated product-specific rules, which can be seen as China’s counter-strike to re-establish value chains in the region in the wake of the restrictive rules of origin under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

The third is the Made in China 2025 initiative, which was also launched in 2015.⁶² The initiative has been widely interpreted as a plan to upgrade China’s manufacturing value chain, which is unsurprising given that “value chain” appeared four times in the document. However, given that references to “self-reliance” were made twenty-one times, it appears that a more urgent goal is to make sure that China controls the entire value chains of key sectors so that it would not be held hostage like in the Huawei case. This is echoed by China’s submission in the WTO e-commerce Joint Statement Initiative negotiations, where its draft article on “Electronic Commerce-Related Network Equipment and Products” calls on members to not “block the supply chains of electronic commerce-related network equipment and products.”⁶³

The latest initiative is the dual circulation strategy based on both domestic and international markets but relies primarily on domestic circulation.⁶⁴ As it was announced in 2020, many people assumed that it was a response to the U.S.-China trade war. In fact, when the project team on “Global Value Chains and International Trade Interests” issued their preliminary report in 2013, MOFCOM already noted that “the contribution of exports to GDP has been over-estimated.”⁶⁵ This research

Liushijiu Hao

(国务院关于加快实施自由贸易区战略的若干意见, 国发【2015】69号) [Several Opinions of the State Council on Accelerating the Development of FTA Strategy, St. Council Issuance No. 69 [2015]] (promulgated by the St. Council, Dec. 17, 2015), St. Council, http://www.gov.cn/zhengce/content/2015-12/17/content_10424.htm (China).

62. Guowuyuan Guanyu Yinfā <Zhongguo Zhizao 2025> de Tongzhi, Guofa [2015] Ershiba Hao, (国务院关于印发《中国制造 2025》的通知, 国发【2015】28号) [State Council Notice on Issuing “Made in China 2025”, St. Council Issuance No. 28 [2015]] (promulgated by the St. Council, May 8, 2015), St. Council, http://www.gov.cn/zhengce/content/2015-05/19/content_9784.htm (China).

63. Henry Gao, *Across the Great Wall: E-commerce Joint Statement Initiative Negotiation and China*, in *ARTIFICIAL INTELLIGENCE AND INTERNATIONAL ECONOMIC LAW: DISRUPTION, REGULATION, AND RECONFIGURATION* 295, 295–318, (Shin-yi Peng, Ching-fu Lin, & Thomas Streinz eds., 2021).

64. Zhonggong Zhongyang Guanyu Zhiding Guomin Jingji he Shehui Fazhan Di Shisi Ge Wunian Guihua he EErting Sanwu Nian Yuanjing Mubiao de Jianyi (中共中央关于制定国民经济和社会发展第十四个五年规划和二〇三五年远景目标的建议) [*Suggestions of the Central Committee of the Communist Party of China on Formulating the Fourteenth Five-Year Plan for National Economic and Social Development and the Vision for 2035*], XINHUA NEWS AGENCY (Oct. 29, 2020), *reprinted at* ST. COUNCIL (Nov. 3, 2020), http://www.gov.cn/zhengce/2020-11/03/content_5556991.htm.

65. Xin Jizhao (辛继召), Shangwu Bu: Chukou dui GDP de Gongxian bei Gaogu (商务部: 出

finding provided the theoretical justification for prioritizing domestic circulation as the main driver of economic growth foundation, which in turn morphed into the dual circulation strategy. This strategy is further bolstered by the recent initiative to build a unified national mega market, where China aims to build a domestic market less susceptible to external turmoil and “enhance China’s influence in the global value chain.”⁶⁶

III. TRADING VALUE FOR VALUES: A NEW GLOBAL TRADE ORDER POST UKRAINE?

Shortly after Trump took office in 2017, MOFCOM issued a Research Report on China-U.S. Economic and Trade Relations, which noted that “in the global value chain, China has a surplus in trade, but the U.S. has a surplus in benefits. Overall it is a mutually beneficiary win-win relationship.”⁶⁷ When Trump disregarded the report and launched the trade war, China followed with another White Paper on “The Facts and China’s Position on China-U.S. Trade Friction,” which again devoted an entire section on the trade war’s disruptive impact on global value chains.⁶⁸ In the end, these arguments based on GVC research did not really work, which is not surprising given that Trump was not known for understanding or following sophisticated policy advice. While Biden’s team does understand the nuances, the China tariffs they inherited from Trump are regarded as a “leverage” that they should retain.⁶⁹ Moreover, their deep understanding of how value chains and supply chains work was also put to good use when the new Uyghur Forced Labor Prevention Act was enacted in December 2021, which applies to all “goods mined, produced, or manufactured wholly or in part with forced labor in the People’s Republic of China.”⁷⁰

口对 GDP 的贡献被高估] [MOFCOM: *Contribution of Exports to GDP has been Over-estimated*], Caijing Guojia Xinwenwang (财经国家新闻网) [FIN. NAT'L NEWS NETWORK] (June 28, 2013), reprinted at Xinlang Caijing (新浪财经) [SINA FIN.] (June 28, 2013), <http://finance.sina.com.cn/china/20130628/144415954166.shtml>.

66. Zhonggong Zhongyang Guowuyuan Guanyu Jiakuai Jianshe Quanguo Tongyi Dashichang de Yijian (中共中央 国务院关于加快建设全国统一大市场的意见) [CCP Central Committee, State Council, *Opinion on the Acceleration of the Construction of the Unified National Mega Market*], XINHUA NEWS AGENCY (Mar. 25, 2022), reprinted at ST. COUNCIL (Apr. 10, 2022), http://www.gov.cn/zhengce/2022-04/10/content_5684385.htm (China).

67. ZHONGGUO SHANGWUBU (中国商务部) [MINISTRY OF COMMERCE PRC], GUANYU ZHONG MEI JINGMAO GUANXI DE YANJIU BAOGAO (关于中美经贸关系的研究报告) [RESEARCH REPORT ON SINO-US ECONOMIC AND TRADE RELATIONS], ST. COUNCIL (May 25, 2017), <https://www.gov.cn/xinwen/2017-05/25/5196803/files/f5ce6b1a660f49e0afed66c1b8169317.pdf> (China).

68. STATE COUNCIL INFO. OFF., BAIPISHU: GUANYU ZHONG MEI JINGMAO MOCA DE SHISHI YU ZHONGFANG LICHANG (白皮书: 关于中美经贸摩擦的事实与中方立场) [WHITE PAPER: THE FACTS AND CHINA’S POSITION ON CHINA-US TRADE FRICTION] (2018), reprinted at ZHONGGUO WANG (中国网) [CHINA.ORG.CN] (Oct. 25, 2018), http://t.m.china.com.cn/convert/c_z36rUGQ1.html (China).

69. Bob Davis & Yuka Hayashi, *New Trade Representative Says U.S. Isn’t Ready to Lift China Tariffs*, WALL ST. J. (Mar. 28, 2021), <https://www.wsj.com/articles/new-trade-representative-says-u-s-isnt-ready-to-lift-china-tariffs-11616929200>.

70. Uyghur Forced Labor Prevention Act, Pub. L. No. 117-79, § 2(b)(1), 135 Stat. 1526, 2021).

Despite its criticisms against U.S. measures undermining GVCs, China also took a page from the U.S. playbook and started to aggressively promote its own values by leveraging on its strategic position in the value chains. One may argue that this is not new, as China imposed a rare earth export ban against Japan in 2010⁷¹ and economic sanctions against Korea in 2017,⁷² but both were ostensibly justified by national security concerns. More recently, however, the threshold for triggering economic sanctions from China has been greatly reduced, as illustrated by the ban on Canadian canola oil imports over Huawei in 2019,⁷³ and the ban on Australian wine, coal and barley imports over inquiries into China's COVID response in 2020.⁷⁴ China's "value chain diplomacy" reached a new height in 2022 over Lithuania's decision to allow Taiwan to open a representative office, where China retaliated by not only banning Lithuanian goods, but also "pressuring EU companies operating out of other EU Member States to remove Lithuanian inputs from their supply chains when exporting to China."⁷⁵ To the EU, such measure would greatly undermine its regional value chain and "threaten the integrity of [the EU] Single Market."⁷⁶ The EU quickly launched a WTO case,⁷⁷ and called for the "strengthening of its toolbox of autonomous measures." The latest addition to the toolbox is the Anti-Coercion Instrument, which, by enabling an EU-wide response to acts of economic coercion, turns its perceived weakness as a multi-member community into a strength.⁷⁸

If China's economic coercion on Lithuania was the wake-up call for just the EU, then Russia's war on Ukraine was the wake-up call for the West as a whole, when they realized that their over-reliance on cheap Russian energy comes with a high-security cost.⁷⁹ This is why U.S. Treasury Secretary Janet Yellen recently called for "friend-shoring," i.e., to work with "a group of countries that have strong

71. Yuka Hayashi & James T. Areddy, *Japan Scrambles for Non-China Rare-Earth Supplies*, WALL ST. J. (Oct. 15, 2010), <https://www.wsj.com/articles/SB10001424052748704049904575553792429346772>.

72. ETHAN MEICK & NARGIZA SALIDJANOVA, U.S.-CHINA ECON. & SEC. REV. COMM'N, CHINA'S RESPONSE TO U.S.-SOUTH KOREAN MISSILE DEFENSE SYSTEM DEPLOYMENT AND ITS IMPLICATIONS (2017), <https://www.uscc.gov/research/chinas-response-us-south-korean-missile-defense-system-deployment-and-its-implications>.

73. Jacquie McNish, *Chinese Dispute Strikes Canada's Canola Farmers*, WALL ST. J. (Apr. 16, 2019), <https://www.wsj.com/articles/chinese-dispute-strikes-canadas-canola-farmers-11555412400>.

74. David Winning, *Australia Threatens WTO Action Against China as Trade Row Intensifies*, WALL ST. J. (Nov. 29, 2020), <https://www.wsj.com/articles/australia-threatens-wto-action-against-china-as-trade-row-intensifies-11606631382>.

75. European Commission Press Release, *EU Refers China to WTO Following Its Trade Restrictions on Lithuania* (Jan. 27, 2022).

76. *Id.*

77. Request for Consultations by the European Union, *China – Measures Concerning Trade in Goods and Services*, WTO Doc. WT/DS610/1, (Jan. 31, 2022).

78. Henry Gao, *Will the European Union's New Anti-Coercion Instrument Work with China?*, CTR. INT'L GOVERNANCE INNOVATION (Apr. 22, 2022), <https://www.cigionline.org/articles/will-the-european-unions-new-anti-coercion-instrument-work-with-china/>.

79. Georgie Kantchev & Joe Wallace, *Russia's Energy Dominance Ties West's Hands in Ukraine War*, WALL ST. J. (Feb. 26, 2022), <https://www.wsj.com/articles/russias-energy-dominance-ties-westshands-in-ukraine-war-11645884001>.

adherence to a set of norms and values about how to operate in the global economy and about how to run the global economic system,” and “to deepen our ties with those partners and to work together to make sure that we can supply our needs of critical materials.”⁸⁰

By prioritizing values over value, the West essentially upended China’s attempt to reshape the global trade policy debate using GVC research. In her speech, Yellen referred specifically to China’s “special relationship with Russia” and warned that “[g]oing forward, it will be increasingly difficult to separate economic issues from broader considerations of national interest, including national security. The world’s attitude towards China and its willingness to embrace further economic integration may well be affected by China’s reaction to our call for resolute action on Russia.”⁸¹ This is echoed by World Bank President David Malpass, who also said recently that China needed to be “part of a value system shared by other countries in the global trading system.”⁸² In other words, the days when values were disregarded for value are over.

Yet, trading value for values also brings up its own set of problems, such as the following:

First, according to Yellen, partners should be “committed to a set of core values and principles,” but she didn’t spell out what are these “core values.” She referred to “values about how to operate in the global economy and about how to run the global economic system” in response to a question, but this is still quite vague and would arguably not encompass for example climate change, which she regarded as “certainly one of them.” Lest anyone thinks that only climate-denying developing countries would disagree with her, Trump’s withdrawal from the Paris Agreement⁸³ has made clear that even cross-Atlantic agreement on “core values” might remain elusive at times. Moreover, even if countries do share the same values, they might not always share the same approach to addressing such issues. This could be just minor differences such as the reactions of the U.S. to the EU’s Carbon Border Adjustment Mechanism (CBAM),⁸⁴ but it could also involve a complete overhaul of the carbon regime such as China’s proposal, based on its GVC research, to allocate carbon emissions to countries where the values are created or consumed rather than the country of final assembly and export, as mentioned earlier.

80. Janet Yellen, *U.S. Treasury Secretary, Special Address on Next Steps for Russia Sanctions and “Friend-Shoring” Supply Chains*, ATL. COUNCIL (Apr. 13, 2022), <https://www.atlanticcouncil.org/news/transcripts/transcript-us-treasury-secretary-janet-yellen-on-the-next-steps-for-russia-sanctions-and-friend-shoring-supply-chains/>.

81. *Id.*

82. Andrea Shalal & David Lawder, *Diversifying Supply Chains from China “probably Good for Everyone” -World Bank Chief*, REUTERS (Apr. 12, 2022), <https://www.reuters.com/business/diversifying-supply-chains-china-probably-good-everyone-world-bank-chief-2022-04-12/>.

83. Eli Stokols, *Donald Trump Withdraws From Paris Climate Deal Despite Allies’ Opposition*, WALL ST. J. (June 2, 2017), <https://www.wsj.com/articles/donald-trump-to-exit-paris-climate-deal-officials-say-1496343854>.

84. Ann-Evelyn Luyten, *The U.S. Response to the EU CBAM: Past Responses and Future Prospects*, TRADEEXPERETTES, <https://www.tradexperettes.org/blog/articles/the-us-response-to-the-cbam-past-responses-and-future-prospects>.

The second issue is how broad or narrow the “values alliance” shall be defined. From the discussion above, it seems unrealistic to require all partners to agree to all values, but even just agreeing on “core values” might be hard to define. For example, when the U.S. first unveiled its long-awaited Indo-Pacific Economic Framework (IPEF),⁸⁵ it did not specify which countries would be invited into the club. While it was expected to include close U.S. allies such as Japan, Korea, Australia, New Zealand, and Singapore, the list was thought to exclude two U.S. treaty allies, i.e., the Philippines and Thailand, as well as India, which has been part of the Quad.⁸⁶ When the IPEF was finally launched in May 2022 by Biden,⁸⁷ it was expanded to include all of the countries mentioned above. But the inclusion of India is still rather strange given India’s refusal to openly condemn Russia or join the sanctions against Russia, while the same inactions by China were subject to a totally different standard, as Yellen made it clear that “[t]he world’s attitude towards China and its willingness to embrace further economic integration may well be affected by China’s reaction to our call for resolute action on Russia!”⁸⁸

Third, how would the “values alliance” be operationalized? Clues from similar arrangements in the past suggest that it would involve preferences for trade partners sharing the same values to redraw existing value chains, but such policies could easily contravene the non-discrimination principle and would be hard to justify under the Regional Trade Agreement (RTA) exception in GATT Article XXIV given that, ironically, the “substantially all the trade” requirement is still based on traditional accounting methods. One could argue for possible justifications under the exceptions for public morals or national security, but then it would be quite a stretch for either provision under existing WTO jurisprudence.

Fourth, while the “values alliance” might sustain while Russia continues its invasion of Ukraine, how long might it last post the war? As history has shown us, it would not be difficult to maintain an alliance in the face of a common enemy, especially one that is an immediate threat. But China, due to its geography, is unlikely to be an immediate threat to either the U.S. or EU, or even Australia or Japan, in the foreseeable future. It is true that China might wage a war against Taiwan, but Taiwan is not a universally recognized sovereign state like Ukraine. Moreover, it could be argued that Europe snapped to action because Russia, after Ukraine, could pose similar threats to other European states. But again, China has not waged war on any of its neighbors with the aim of permanent annexation of foreign territories

85. *Fact Sheet: Indo-Pacific Strategy of the United States*, WHITE HOUSE (Feb. 11, 2022), <https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/02/11/fact-sheet-indo-pacific-strategy-of-the-united-states>.

86. Matthew P. Goodman & Aidan Arasasingham, *Regional Perspectives on the Indo-Pacific Economic Framework*, CTR. STRATEGIC & INT’L STUD. (Apr. 11, 2022), <https://www.csis.org/analysis/regional-perspectives-indo-pacific-economic-framework>.

87. *Fact Sheet: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity*, WHITE HOUSE (May 23, 2022), <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/>.

88. Yellen, *supra* note 80.

since 1949. Given the huge attractions of its large, well-educated, and skilled workforce and the enormous domestic market, which also explain how China became a key link in the GVC in the first place, it would be hard for any country to completely cut off from China. One may argue that China, with its outlandish “COVID-zero” policy, is already making it extremely difficult for foreign firms to operate in China,⁸⁹ but such strict pandemic control measures have proven to be temporary, especially as the new COVID variants now seem to become milder.

The last and most important question is what effect the “alliance of values” will have on China. Since the start of the Ukraine war, China has watched the sanctions against Russia closely. Amidst reports of the West contemplating the possibility of sanctions against China,⁹⁰ Beijing has also been drawing up plans to protect its vast assets denominated in USD.⁹¹ However, given how deeply embedded China is in the GVC, and how China’s invasion of Taiwan is unlikely to trigger a Ukraine-like response, sanction still seems to remain a rather remote possibility. The more immediate issue is whether the shift from value to values as the basis for organizing supply chains would shatter China’s belief in the UN and other multilateral institutions. In a recent article titled “The Impact of the Russia-Ukraine Conflict on the Multilateral Trading System”, former Chinese WTO Ambassador Yi Xiaozhun reckoned that the conflict would lead to the fragmentation of global economic governance and end the current round of globalization, and he even stated that “in some way, deglobalization is de-Chinazation”.⁹² In response to the attempts of the U.S. to forge a “values-based trading system”, he advised that China shall double up its multilateralization efforts, such as maintaining its developing country status, making as many friends as possible (especially with Europe), and adhering to its open-up policies. While his view might reflect the consensus among the trade technocrats, it is unclear whether the senior leadership also adopts the same perspective. In this regard, it might be worth recalling the fate of the EU-China Comprehensive Agreement on Investment (CAI), where the Ministry of Foreign Affairs slapped sanctions on Members of the European Parliament right after the conclusion of the CAI, essentially putting to waste MOFCOM’s seven years of hard work.⁹³ Of late, China has been drumming up support for status quo multilateral institutions such

89. Eleanor Olcott et al., *European Businesses Warn China over Zero-Covid Policy*, FIN. TIMES (May 5, 2022), <https://www.ft.com/content/71b7fa2f-1158-4e4c-b6cd-b0ab309593a6>.

90. Jacob Fromer & Finbarr Birmingham, *China’s Support for Russia Galvanises West as US Examines Action against Beijing*, S. CHINA MORNING POST (Apr. 12, 2022), <https://www.scmp.com/news/china/article/3173916/chinas-support-russia-galvanises-us-europe-washington-examines-once>.

91. Sun Yu, *China Meets Banks to Discuss Protecting Assets from US Sanctions*, FIN. TIMES (Apr. 30, 2022), <https://www.ft.com/content/45d5fcac-3e6d-420a-ac78-4b439e24b5de>.

92. Yi Xiaozhun (易小准) et. al, E Wu Chongtu Dui Duobian Maoyi Tizhi De Yingxiang (俄乌冲突对国际经贸格局的影响) [The Impact of the Russia-Ukraine Conflict on the Multilateral Trading System], Guoji Jingji Pinglun (国际经济评论) [Int’l Econ. Rev.] no.3, 2022, at 10.

93. Henry S. Gao, *The EU-China Comprehensive Agreement on Investment: Strategic Opportunity Meets Strategic Autonomy*, 2022 Asian Y.B. Int’l Econ. L., 47.

as the United Nations⁹⁴ and the WTO⁹⁵ as a way to fend off efforts by the U.S. and its allies to make new rules in these institutions. However, with recent developments such as the suspension of Russia from the UN Human Rights Council⁹⁶ and the termination of Most-Favoured-Nation treatment for Russia by the EU and G7 countries at the WTO,⁹⁷ China's confidence in these multilateral institutions might be waning. If the West accelerates its efforts to exclude China from existing value chains, China might decide to follow their example and use its economic clout to set up a rival trade organization, one that is based on an alternative set of values, just like the Council for Mutual Economic Assistance formed by the Soviet Union during the Cold War. In turn, this could lead to further economic decoupling and greatly increase the likelihood of a real war. When that happens, it would be hard to salvage either value or values.

94. Henry Gao, *Promising Trail or Perilous Trap? Engaging China in the WTO and Beyond*, 116 AJIL UNBOUND 46 (2022).

95. Gao, *China's Changing Perspective on the WTO: From Aspiration, Assimilation to Alienation*, *supra* note 6.

96. UN AFFAIRS, *UN General Assembly Votes to Suspend Russia from the Human Rights Council*, UN NEWS (Apr. 7, 2022), <https://news.un.org/en/story/2022/04/1115782>.

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