



Why is emerging global superpower China still categorized as a 'developing' country?

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Despite being the world's second-largest economy and home to the most billionaires, China is still categorised as a "developing" country and enjoys the same "special and differential treatment" afforded to nations like Papua New Guinea and Zimbabwe.

Key points:

- The WTO does not have a framework to define a 'developed' or 'developing' country
- It is entirely up to the "good faith" of individual members to self-allocate themselves
- This has led to controversy over China having experienced massive economic growth

Beijing maintains that it sees no reason to give up the self-declared status at the World Trade Organisation (WTO) — or its perks — claiming the preferential treatment is a "fundamental right".

Last week, commerce ministry spokesman Gao Feng explained during a regular press conference that China was the "largest developing country" in the world, even though the Asian superpower has a GDP of \$US14.2 trillion — in comparison, Australia's GDP is roughly \$US1.5 trillion.

"China's position on WTO reform has been very clear. China is the largest developing country in the world," Mr Gao said.

"We do not shy away from our international responsibilities and are willing to assume obligations in the WTO that are compatible with our own economic development level and capabilities.

"At the same time, we will work with other developing members to firmly uphold our fundamental rights and to voice our common voice and safeguard our development interests."

The latest comments come as a rebuke to a US proposal to reform the WTO that would slash the number of countries eligible for differential treatment.

But how is China, with its booming economy and staggering growth, still eligible to keep its "developing" country status and benefits? And at what stage does it become a "developed" country like Australia and the United States?

What defines a 'developing' vs a 'developed' country?

The WTO does not define a "developed" or "developing" country, nor does it have any benchmarks to determine which bucket its members fall into.

It is entirely up to the individual members to self-allocate themselves to a group. The WTO also recognises the "least-developed" countries designated by the United Nations.

The World Bank, however, defines a high-income country — or "developed" country — by setting the threshold for gross national income (GNI) per capita at \$US12,055 (\$16,900).

Since China's GNI per capita — at \$US8,690 in 2017 — falls below the threshold, it could possibly argue that it is eligible for the status under this framework.

Country	GNI per capita 2017 (\$US)
Malaysia	\$9,650
Russia	\$9,230
Grenada	\$9,180
St Lucia	\$8,830
China	\$8,690

Source: World Bank and OECD National Accounts data files.

But this definition is not binding or officially accepted by the WTO, and there exists no all-encompassing framework tied to soaring GDP or anything of the sort.

According to the WTO, two-thirds of its 164 members — including China and India — currently consider themselves developing countries.

Under WTO rules, developing countries are given special provisions, which includes longer time periods for implementing agreed commitments and measures to increase trading opportunities.

The US draft reform posted on the WTO website has pushed for a framework to cut back on special treatment for self-designated countries classified as "high income" by the World Bank, OECD members or acceding members, G20 nations and any state accounting for 0.5 per cent or more of world trade.

China has rejected the proposal — along with India, Venezuela and South Africa. Analysts have noted that while China would still receive special treatment with this framework, based on it being low income, it would be barred due to its status as a G20 nation as well as its domination of world trade.

So there officially remains no way to prevent a self-designation and, according to Simon Lester, the associate director of Cato Institute's Herbert A Stiefel Centre for Trade Policy Studies in Washington, it essentially comes down to a controversial assumption of "basic good faith" that WTO members would self-designate as "developed" once they felt that way.

So why don't Australia and the US claim the status?

According to Mr Lester, it would be "absurd" and the system would have "no meaning" if countries like the US began self-designating.

"Wealthy countries like United States and Australia just couldn't fit there, it just wouldn't make any sense," he said.

"It would be so absurd that the whole system would just kind of fall apart.

"If countries that are clearly not poor, relatively speaking, industrialised countries like the United States and Australia claimed it, then it would have no meaning."

Mr Lester added that while there is no WTO framework, it would come across as clearly ridiculous for a nation to self-declare as a "developing" country if it was well above a certain income level — for example, statistics on gross national product (GNP) per capita "which you could roughly take as a country's income level".

"There are a number of countries who are sort of like right on the edge," Mr Lester said.

"Nobody is really contesting that [Haiti's] developing, but with countries who [had weaker economies but have quickly] moved up the economic ladder — like South Korea [or China] — [the self-designation practice] becomes more controversial."

Why do people think it's unfair that China self-classifies?

Jane Golley, acting director at the Australian Centre on China in the World at the Australian National University, said China used its state-controlled banking sector to provide privileges to state-owned enterprises, and that made them more globally competitive than they would otherwise be.

"The problem of course, is that when you look at a country with now the world's largest number of billionaires — how can that possibly be a developing country?" she said.

"China finds itself in a unique position of becoming powerful before becoming rich.

"It's such a bewildering fact that we just don't know how to deal with it."

Mr Lester said since China had a number of product areas where they're super competitive, and getting wealthy by exporting their products around the world, people believe they're "not operating in good faith" by maintaining all the benefits of a developing country.

"People think ... yes, you were poor in the 1980s and 1990s, but now you've developed. You are an industrial powerhouse, you don't need the same special rules that maybe a country like Haiti does," he said.

"You can't put yourself in that category, you've moved up."

Mr Lester added China was "right on the edge" and there was some validity to the criticism, but China has maintained it is not fully developed at this stage.

"I think maybe we need to get some sort of middle category ... where China takes on more commitments and doesn't benefit from all of the special rules for developing countries, but maybe only for a few or maybe only in certain sectors," he said.

"As countries graduate from 'developing' country status, we need some process to kind of recognise that, and to have categories that are better calibrated to the actual economic situation of these countries."

This is what the US has essentially been pushing for, and has received pushback from China and India.

Jack Caporal, an associate fellow with the Scholl Chair in International Business at Centre for Strategic and International Studies, said the US last July submitted a document to the WTO General Council that made a case for why China should not be considered a developing country.

"It cites China's explosive growth since it joined the WTO, its development in the tech and defence industries, and advances in other areas," he said.

"Other metrics call into question China's decision to self-identify as developing, including its massive foreign direct investment around the world, the fact that China is the largest economy on a purchasing power parity basis, and that it's home to 12 of the 100 largest companies in the world."

Anabel Gonzalez, from the Peterson Institute for International Economics, said as China's share in world exports grew from 3.9 per cent in 2000 to 12.8 per cent in 2017, the calls for it to engage in rule making and market opening have intensified.

"Failure to find a solution that will bring larger developing countries into the system could result in advanced economies opting to work around the WTO," she said.

So why would China ever give up its status?

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Mr Caporal said some countries have chosen to no longer self-define as developing in future WTO negotiations because they believe they are no longer developing and are ready to take on full WTO obligations.

And while the US tabled a proposal in February that would lay out criteria to determine if a country is 'developed' or 'developing', he said it was unlikely the proposal would ever be adopted.

"But the US did convince Brazil to forego special and differential treatment as it works through its Organisation for Economic Cooperation and Development (OECD) accession, so clearly the US is pushing the idea regardless of its formal adoption," he said.

Ms Gonzalez said given that self-declaring as a developing country was an issue that has a long history in the WTO — with developing countries "adhering to it almost as a point of honour" — it is unlikely the solution would come by changing the self-declaration practice.

"Besides, finding the right criteria would be tricky, given the diversity across developing countries," she said.

Stephen Woolcock, associate professor of international relations at the London School of Economics and Political Science, said a formal codification of what is a developing country has proven to be a political nonstarter in the WTO to date.

"The developing countries rally around and block any such attempt," he said.

Dr Woolcock said a better bet would be to differentiate according to capabilities with regard to specific topics.

"This was done in the Trade Facilitation Agreement of the WTO and offers a better prospect for success than trying to come up with all encompassing criteria," he said.

So whether China will ever declare itself as a "developed" country — or why or when it chooses to do so — continues to be up to its discretion and remains to be seen.