



The WTO still considers China a 'developing nation.' Here's the big problem with that

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President Trump recently called out China for claiming the special privileges of a poor country, tweeting that "China, which is a great economic power, is considered a Developing Nation within the World Trade Organization. They therefore get tremendous perks and advantages, especially over the U.S. Does anybody think this is fair[?]"

With a number of U.S.-China trade disputes simmering, this criticism from Trump seemed designed to justify his various tariff threats, on steel, aluminum and a wide range of other products.

Like many of Trump's policy pronouncements, this one was clumsily framed and misleading, but had a grain of truth to it. If China is dominating the international economy, as you might conclude from headlines, why is it classified as "developing" and why does it get special treatment?

The answer is fairly simple: When China began the process of joining the WTO in 1986, it was, in fact, quite poor. Its GDP per capita, taking into account purchasing power parity (PPP), was around \$677, compared to \$19,078 for the United States. However, the critics are right that China's economy has grown substantially in recent years, and it is now time for China to become a more equal partner in international economic affairs.

There is no official WTO classification as to which countries are "developing." This status is self-selected, based on politics more than law or economics, and can be contested. It is a controversial point that usually stays buried beneath the surface, but occasionally flares up into minor controversy.

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By declaring itself a developing country as part of the negotiations, China was able to take on fewer commitments at the WTO. However, 17 years into its WTO membership, China has surged to become the second largest economy in the world. Parts of China are now as advanced as parts of the industrialized world.

At the same time, before you assume that China has now "graduated" to rich country status, keep in mind that not all Chinese are doing so well. National Economic Council Director Larry

Kudlow recently said, "China is a first-world economy, behaving like a third-world economy," but that is an exaggeration.

China's GDP per capita, measured with PPP, was \$16,660 in 2017. That is a vast improvement over where it was in 1986, or in 2001 when it joined the WTO, but it is still much lower than the United States (\$59,501).

This low figure for average wealth, despite high incomes in some big cities, is the result of substantial income inequality in China. And as a result, China can still call itself "developing" in the context of the WTO.

Nevertheless, it is undeniable that China is much richer as a whole than it used to be, and this is largely thanks to the economic reform, including lowering its tariffs and liberalizing some sectors of the economy, that accompanied China's accession to the WTO. In this sense, its economic status has changed. While it is still developing, it is much closer to the developed countries than before.

China's changed economic circumstances mean that its role in the world trading system merits reconsideration. A key objective of the WTO is to raise living standards, and although China's WTO membership has helped in this regard it still has a long way to go.

While China should maintain its developing country status, if it wants to avoid the ire of the Trump administration and the world community, China should pay back some of the "raise" it got by playing a more active role in supporting the world trading system.

In recent years, the WTO's liberalization agenda has stalled in a number of areas. There are no easy answers as to how revive it, but positive contributions by China could help. Here are some steps it could take to show that it is pulling its weight.

One area that could use a boost is the ongoing negotiations on the liberalization of environmental goods, which would lower tariffs on a wide range of products, including solar panels and wind turbines (China's tariffs on these products are relatively low, but other countries' tariffs are as high as 35%).

China has been accused of derailing these talks. A good way to change its image on the world stage would be to push this kind of basic tariff liberalization forward instead of getting in its way.

In addition, China could finally make a serious effort to join the WTO's Agreement on Government Procurement, after years of tepid offers in the negotiations. Governments are some of the biggest purchasers of goods and services in the world, and taxpayers are better served when they buy from the highest-quality/lowest-cost producer, rather than simply give preference to domestic companies.

Opening up more of its procurement market to foreign companies -- and getting access to foreign markets for its own companies in exchange -- would be a big step towards a more liberalized Chinese economy.

Lastly, China could join the Trade in Services Agreement (TiSA) talks taking place in Geneva, which aim to make progress in dealing with the complex regulatory barriers that interfere with services trade. In doing so, however, China must be constructive and not drag its feet in the negotiations, as some fear.

With greater wealth comes greater responsibility. Even if it continues to maintain its "developing" status, as China's economy grows it should take on additional international obligations and play a more equal role in international economic organizations such as the WTO. By doing so, China will improve its own economy, reduce international economic conflict, and help strengthen the world trading system.

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